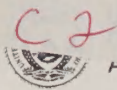


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Policy Research Notes

Issue 14

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POLICY RESEARCH NOTES: PUBLISHED BY THE ECONOMIC RESEARCH
SERVICE, USDA, AND THE ILLINOIS AGRICULTURAL EXPERIMENT
STATION FOR PROFESSIONALS IN PUBLIC AGRICULTURAL AND FOOD
POLICY RESEARCH, TEACHING, EXTENSION, AND POLICYMAKING.

INTRODUCTION

The rapid pace of developments concerning this nation's agricultural and food sector over the past several months further emphasizes the continuous process of public policy evolution. Similarly, it highlights the need for a continuous flow of relevant policy research and education. Just as any set of policy decisions are not destined to stand for long unaltered, neither are theories, findings, and recommendations from policy research likely to remain unaltered and unchallenged.

Recent events surrounding policy developments have also dramatized the interrelations between agricultural and food policy and its broader economic environment. In these times, policy has been directly affected by the conditions in the national economy, by international relations, the national and international financial markets, economic conditions in foreign countries, general budgetary imperatives, inflationary and deflationary pressures, crop growing conditions, and even elections. Such broad complex underpinnings of agricultural and food policy suggest that policy research must somehow also reach for the capacity to conceptualize and analyze adequately these very determinants of policy decisions, if the research product is to be useful to decisionmakers.

Policy Research Notes is distributed to provide a communication linkage among these policy workers. It is circulated on a May and November schedule each year. Requests for copies of earlier issues of these Notes and for the latest Policy Workers List, comments or suggestions about them, and proposed contributed articles may be sent to either address below.

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Policy Research Notes is a cooperative effort of the Illinois Agricultural Experiment Station and USDA-ERS. The Notes are prepared by R. G. F. Spitze, Department of Agricultural Economics, 1301 West Gregory Drive, University of Illinois, Urbana, Illinois 61801, and Kenneth C. Clayton, Food and Agricultural Policy Branch, ERS, 500 12th Street, S.W., Washington, D.C. 20250. The capable assistance of Tom Fulton (FAP/ERS) is gratefully acknowledged.

ANNOUNCEMENTS

National Public Policy Education Conference Date Set

The thirty-third annual NPPEC will be held September 12-16, 1983 at Illinois Beach State Park, Zion, Illinois. A program committee under the leadership of Bobby H. Robinson will be developing plans for the conference in the coming months.

Suggestions or inquiries should be directed to Bobby at the Department of Agricultural Economics, Clemson University, Clemson, SC 29631 or to Jim Hildreth or Walt Armbruster, Farm Foundation, 1211 West 22nd Street, Oak Brook, IL 60521.

The Farm and Food System in Transition-- Emerging Policy Issues Project Underway

This national extension sponsored educational project centered at Michigan State University is now taking shape. After many months of planning, discussions with various regional and national policy groups, and revisions of draft programs of work, the project leaders have developed working topical outlines for sixty-three (63) resource papers and are in the process of contacting authors to write the papers. Authors are committed for more than 50 of the papers. The focus of the papers is on changes in the farm and food system, the policy issues the changes pose, and alternative private and public policy responses. Intended uses of the resource papers include a comprehensive current reference publication, input for short media releases for specific audiences, material for leadership education programs, and general media releases based on selected papers.

Working titles of the resource papers are as follows:

- 1 - The Farm and Food System--Major Characteristics and Trends
- 2 - What's Shaping the Future F&F (Farm and Food) System?
- 3 - The Global Food System and the Future of the U.S. F&F System
- 4 - Major Dimensions of Future F&F Policy
- 5 - Conflicting Policy Goals for the Farm and Food System
- 6 - The Changing Role of Government in the F&F System
- 7 - The Monetary-Fiscal Policy Connection
- 8 - Credit and the Future F&F System
- 9 - National Objectives and Future International Policy Involving the F&F System
- 10 - Taxes and Future F&F System Performance
- 11 - Productivity and Technology Policy for the Future F&F System
- 12 - Genetic Engineering and the Future F&F System
- 13 - Computer and Communication Technology and the Future F&F System
- 14 - Public vs. Private R&D for the Future F&F System
- 15 - Will Small Be Beautiful in the Future F&F System?
- 16 - Policies on Size and Market Concentration for the Industries of the Future F&F System

- 17 - Large National Conglomerate Firms and the Future Food System
- 18 - The Farming Industry of the Future--Farm Structure: Trends and Issues
- 19 - Assembly Markets in the Future F&F System
- 20 - Food Retailing and Wholesaling in the Future F&F System
- 21 - Food Processing and Manufacturing in the Future F&F System
- 22 - New Food Production Development and Marketing--Food Technology
- 23 - Food Advertising and Future Food System Performance
- 24 - Food Merchandising and Future Food System Performance
- 25 - The Food Service and Away From Home Food Market
- 26 - The Future Role of Farmer Cooperatives
- 27 - The Future Role of Marketing Orders
- 28 - The Future Role of Farmer Collective Bargaining
- 29 - The Future Role of Consumer Food Cooperatives
- 30 - Developing Institutions for Coordinating Supply with Future Demand for Food
- 31 - Commodity Futures Markets and Food System Performance
- 32 - The Future of Price and Income Support Programs
- 33 - The Changing Food Entitlement Programs
- 34 - Can Standardization Improve Future Food System Performance
- 35 - The Increasing Complexity and Importance of Food Safety Policy
- 36 - Natural Resources and the Food System: An Overview
- 37 - Soil Conservation Policy for the Future
- 38 - Land Use Policy for the Future
- 39 - Separation of Land Ownership and Farm Operation
- 40 - Chemical Fertilizers and Future Food System Performance
- 41 - Water Policy and Future Food System Performance
- 42 - The Environmental Connection to Future Food System Performance
- 43 - Wildlife Species Preservation and Future F&F System Performance
- 44 - Possible Consequences of Weather and Climate on Future F&F System Performance
- 45 - Energy and Future F&F System Performance
- 46 - Transportation Policy and the Future F&F System
- 47 - Labor Issues in the Future F&F System
- 48 - Trade and the Future F&F System
- 49 - Foreign Exchange Rates and Future Performance of World Food System
- 50 - Location of F&F System Activity--Comparative Advantages
- 51 - Changes in Foreign Ownership and Control of U.S. F&F System
- 52 - Changes in the F&F System and Rural Communities
- 53 - Food for People and Profit--The Ethics of a Capitalistic Food System
- 54 - Crime and Corruption in the Food System
- 55 - Food Security and the Future of the Farm and Food System
- 56 - Changing Attitudes Toward Animal Rights and F&F System Performance
- 57 - The Role of Government in the Production and Distribution of Data on and for the Future F&F System

- 58 - Do We Need National Economic Planning for the Future F&F System?
- 59 - The Changing Farm and Food Institutions
- 60 - The Changing Politics of F&F System Policy
- 61 - Multinational Firms and Performance in International Markets
- 62 - If the U.S. F&F System Really the Greatest?
- 63 - The Oceans and the Food System

For further information, contact Jim Shaffer, Vern Sorenson or Larry Libby, Department of Agricultural Economics, Michigan State University, East Lansing, MI 48824.

New USDA
Economic
Analysis
Staff
Created

The Secretary of Agriculture has created a new office--the Economic Analysis Staff--reporting to and assisting Assistant Secretary for Economics William Leshner. A key role for the office will be analysis of the economic implications of significant agricultural issues including major legislative and regulatory proposals. Terry Barr, formerly acting chairman of the World Agricultural Outlook Board, was named director of the new office. Four additional senior economists with expertise in the several major areas of USDA responsibility are being recruited.

For further information, contact Dr. Barr, Room 227E Administration Building, USDA, Washington, D.C. 20250.

Rockefeller
Foundation
International
Policy Work-
shop Held

A Rockefeller Foundation sponsored Workshop on Strengthening National Food Policy Capability was held November 1-5, 1982, at the Bellagio Study and Conference Center, Lake Como, Italy. It brought together food policy specialists to: (1) develop a basic framework within which to identify and address major food policy issues, including the role of women in the food system; (2) examine applied food policy projects in several less developed countries in light of this framework; and (3) define training and research needed to improve the food policy performance nationally and internationally.

For forthcoming working papers from this conference, contact Charles K. Mann, Associate Director for Agricultural and Social Sciences, The Rockefeller Foundation, 1133 Avenue of the Americas, New York, NY 10036.

North Central
Policy
Research
Project
Underway

A new three year regional policy research project (NC-169) with interregional participation got underway at an initial organizational meeting on November 4-5, 1982, Chicago, Illinois. Planning was started by the representatives from States of several regions and ERS to achieve the seven objectives outlined in the project proposal. The major thrust of the research is on Economic Uncertainty and Policy. It seeks to improve our knowledge about the nature of emerging economic uncertainty in the environment of agricultural and food policy, about the potential impacts of this uncertainty upon policy, and about alternative public policy responses that might be relevant to decision making during the coming 3-5 years.

Fourteen States and ERS have already made resource commitments to this project. Researchers in other States interested in this joint effort may inquire from their respective Experiment Station Directors or from the temporary officers of the previous project technical planning group: Marshall Martin, Department of Agricultural Economics, Purdue University, West Lafayette, IN 47907 or Bob Spitze, 305 Mumford Hall, 1301 West Gregory Drive, University of Illinois, Urbana, IL 61801.

Southern Groups
Sponsor Water
Policy
Conference

A conference on Water Policy in the South jointly sponsored by the Southern Extension Public Affairs Committee, Southern Natural Resources Economics Committee (research-teaching); and the Southern Rural Development Center was held November 18-19, 1982, Memphis, Tennessee. It focused on the several legal and economic issues and policies concerning water use.

Further information about the conference and a forthcoming proceedings can be obtained from Carl Farler, Extension Economist, Cooperative Extension Service, 1201 McAlmont, Little Rock, AR 72203.

Symposium on
Future Agri-
cultural
Productivity
Scheduled

The Iowa State Center for Agricultural and Rural Development is sponsoring a national symposium on Future Productivity and Resource Conservation on December 6-9, 1982, Iowa State University, Ames, Iowa. A set of interdisciplinary papers authored by scientists from various fields of agriculture will consider the probable available technology in the early part of the next century, likely rates of adoption, effects on productivity, and expected consequences to resource use.

Further information about this activity and the availability of the proceedings may be obtained from Burton English or Earl O. Heady, Center for Agricultural and Rural Development, 278 East Hall, Iowa State University, Ames, IA 50011.

POLICY RESEARCH NEWS ITEMS

Government
Intervention
and Regulation
Study of
Canadian
Agriculture
Completed

A major research team effort (previously announced in Policy Research Notes, November 1981) concerning Canadian Agricultural Policy commissioned by the Economic Council of Canada and the Institute for Research on Public Policy now has been completed with the publication of the overview report and a compendium on reforming regulation in the several sectors of the Canadian economy including agriculture. A press release at the publication of the overview report stated:

"The Canadian system of food production is 'performing quite well' in rewarding producers, satisfying consumers and contributing to Canada's overall economic performance, according to a study published jointly today by the Economic Council of Canada and The Institute for Research on Public Policy." ... "The authors are critical of marketing boards in the feather and dairy industries which, they claim, cost consumers dearly through the use of supply and pricing arrangements that are 'cost-ineffective and socially regressive.'" ... "The authors propose resistance to creation of more marketing boards 'until we have learned to use supply management techniques in ways that are less prone to abuse in the short term, and less of a threat in the longer term to Canada, and to farmers themselves.' The challenge facing Canadian agriculture, the authors conclude, is to 'devise a set of instruments that will stabilize key economic variables in agriculture while resisting the temptation to move into regulated systems that isolate the Canadian food system from competitive market conditions.'"

Further information about this research effort can be obtained from one of the organizers and a principal researcher: T. K. Warley, School of Agricultural Economics, University of Guelph, Guelph, Ontario N1G 2W1.

Publications emanating from the project and availability follows:

Overview Reports and Compendium on Regulation available from: Canadian Government Publishing Center, Supply and Services Canada, Ottawa, Canada K1A 0S9.

J. D. Forbes, R. D. Hughes and T. K. Warley, Economic Intervention and Regulation in Canadian Agriculture, 1982, 139 pp. (Price: Canada \$7.95; other countries \$9.55).

G. L. Brinkman, Farm Incomes in Canada, 1981.

Reforming Regulation, 1981, 170 pp. (Price: Canada \$9.95; other countries \$11.95).

Technical Reports available from: Economic Council of Canada, P.O. Box 527, Ottawa, Canada K1P 5V6.

Peter L. Arcus, Broilers and Eggs, Technical Report E/13, 1981.

Richard R. Barichello, The Economics of Canadian Dairy Industry Regulation, Technical Report E/12, 1981.

D. R. Harvey, Government Intervention and Regulation in the Canadian Grains Industry, Technical Report E/16, 1981; this includes a supplementary essay by Fred Anderson, "Regulation and the Characteristics of the Supply of Transport to Agriculture in Canada."

Tim Josling, Intervention and Regulation in Canadian Agriculture: A Comparison of Costs and Benefits Among Sectors, Technical Report E/14, 1981.

Larry Martin, Economic Intervention and Regulation in the Beef and Pork Sectors, Technical Report E/11, 1981.

D. M. Prescott, The Role of Marketing Boards in the Processed Tomato and Asparagus Industries, Technical Report E/15, 1981.

J. D. Forbes, Institutions and Influence Groups in the Canadian Food Policy Process, (forthcoming).

Working Papers available from: Economic Council of Canada, P.O. Box 527, Ottawa, Canada K1P 5V6.

J. C. Gilson, Evolution of the Hog Marketing System in Canada, Working Paper E/12, 1982.

R. D. Anderson, Government Regulation of Canadian Dairy Processing, Distributing and Retailing Sectors, Working Paper E/25, 1981.

Resources for
Future Initiates
Two Policy
Projects

R.F.F. has initiated research on a "Reassessment of Global Prospects for Food, Fiber, and Forest Products to the Year 2000." It will examine the implications for the United States of meeting the food and fiber needs of the world, through the year 2000, particularly as this might relate to use of the natural resource base. A second project on the Impacts of Natural Resource and Agricultural Policies on the Distribution of Income and Wealth in Rural America has also been undertaken. It focuses on the relationship between resource endowments, resource policy and selected agriculture policies and the distribution of income and wealth.

Inquire about these projects from Kenneth R. Farrell, Director, Food and Agr. Policy, Resources for the Future, 1755 Massachusetts Avenue, N.W., Washington, D.C. 20036.

Prospects for
Agricultural
Production
and Trade in
Eastern Europe

This project analyzes the agro-food sectors of the Eastern European countries and assesses the agricultural trade prospects for OECD countries with them in the medium-term.

Inquire about this project from Ferdinand Kuba, Directorate for Food, Agriculture and Fisheries, OECD, 2 Rue Andre-Pascal, 75775 Paris, Cedex 16, France, and request a related publication (2 volumes with a charge), which carries the above general title along with volume titles as Volume 1--Poland, GDR, Hungary (1981), Volume 2--Czechoslovakia, Bulgaria, Romania from OECD Publications and Information Center, Suite 1207, 1750 Pennsylvania Avenue, N.W., Washington, D.C. 20006, or from OECD Sales Agents in other countries.

The Farm
Economy

In this analysis prepared for an address presented at the Midwestern Governor's Conference on July 19, 1982, a comparison is made of the close relationship between agriculture of the early 1930's to agriculture of the early 1980's.

Inquire about this analysis and order a copy of Ag. Econ. Paper No. 1982-29 by above title from Harold F. Breimyer, Department of Agricultural Economics, University of Missouri, Columbia, MO 65211.

Proceedings
About Soil
and Water
Conservation

A policy conference on Soil and Water Conservation--Principle and Practice was held on November 11-12, 1982, at the University of Missouri. Featured speakers included Maurice Kelso (University of Arizona), Philip Raup (University of Minnesota), and Peter Meyers (SCS). The purpose of this conference, which continued the series on agricultural marketing and policy held at the University of Missouri since 1973, focused on current policy issues associated with soil and water conservation.

Inquire about this conference and its proceedings from Coy G. McNabb, 220 Mumford Hall, University of Missouri, Columbia, MO 65211.

Compensation
Policies for
Changes in
Freight Rates
and the Grain
Industry

This study focuses on the long standing statutory freight rates in Canada which will soon be changed to follow the principle of cost compensatory rating. This substantive reform will generate gains and losses. Compensation policy options are being examined to cover immediate reductions in prairie grain prices, to facilitate adjustments required to take advantage of the change, and to treat downside risk to grain producers especially during a transition period.

Inquire about this study from L. P. Apedaile, Department of Rural Economy, University of Alberta, Edmonton, Canada T6G 2H1.

Resources
Conservation
Act RCA
Related
Research
Underway

Extensive research is underway at the Iowa Center in cooperation with the USDA in connection with the RCA. Large-scale and detailed national-regional models for analysis of potential policies of soil conservation are being developed.

Inquire about these research efforts from Earl O. Heady, The Center for Agricultural and Rural Development, 578 East Hall, Iowa State University, Ames, IA 50011.

The Energy
Problem and
the Agro-
Food Sector

This project takes stock of the situation in relation to energy and agriculture at the end of 1981 on the basis of data then available and attempts to set the problems in the context of the underlying trends in oil supply.

Inquire about this project from Yves Cathelinaud, Directorate for Food, Agriculture and Fisheries, OECD, 2 Rue Andre-Pascal, 75775 Paris, Cedex 16, France, and request two related publications: 1) The Energy Problem and the Agro-Food Sector, 1982, order (a charge) from OECD Publications and Information Center, Suite 1207, 1750 Pennsylvania Avenue, N.W., Washington, D.C. 20006, or from OECD Sales Agents in other countries; 2) Brief Country Notes on Policy Measures, 1982, covers Germany, Austria, Canada, Denmark, Finland, France, Japan, Netherlands, United Kingdom, Sweden and Switzerland, are bound in one volume, and are available free in English or French on request to Yves Cathelinaud at the above address.

Potential
Impacts of
Future Energy
Price Policy
Impacts on
Agriculture

This study traces the potential economic impacts of possible future energy price policies upon the various sectors of agriculture.

Inquire about this study from Anthony Turhollow or Earl O. Heady, Center for Agricultural and Rural Development, Iowa State University, 578 East Hall, Ames, IA 50011.

Price Formation
and the Agro-
Food Sector

Since 1978, OECD has conducted an investigation entitled, "For an Improved Understanding and Maintaining of Prices, Price Formation and Marketing Margins of Food Products." A first phase focused on marketing margins of food products and the second phase dealt with food price formation and the performance of agro-food systems in OECD countries.

Inquire about this investigation from D. Beraud, Directorate for Food, Agriculture and Fisheries, OECD, 2 Rue Andre-Pascal, 75775 Paris, Cedex 16, France, and request a related publication, Price Formation and the Performance of Agro-Food Systems, October 1982, (a charge) from OECD Publications and Information Center, Suite 1207, 1750 Pennsylvania Avenue, N.W., Washington, D.C. 20006, or from OECD Sales Agents in other countries.

Beef Imports

This study concerns the relation between various marketing programs and beef imports.

Inquire about this study from Will Martin or Earl O. Heady, Center for Agricultural and Rural Development, Iowa State University, 578 East Hall, Ames, IA 50011.

Expanded
Federal Crop
Insurance

This is a review, for a popular audience, of some of the reasons for recent reforms in federal loan, grant and insurance programs that assist farmers with uncontrollable crop losses.

Inquire about this review from Dick Todd, Research Department, Federal Reserve Bank, 250 Marquette Avenue, Minneapolis, MN 55480, and request a related publication, "Expanded Federal Crop Insurance: A Better Way for Taxpayers to Share Farmers' Risks," Federal Reserve Bank of Minneapolis Quarterly Review, 1982, from the above address.

United States
Hop Industry
and the Federal
Hop Marketing
Order

Federal Marketing Order No. 991, in effect since 1966, imposes a volume control provision that limits the quantity of hops marketed from current production and, at the same time, discourages overproduction or underproduction. An empirical analysis of the projected components of supply and demand to actual market results was conducted. The analysis revealed that on the average, the market order committee over-estimated demand components and underestimated supply components. It can be partially concluded that the order has not unduly used its market power in restricting the quantity of hops available to the market from domestic production.

Inquire about this analysis from Raymond J. Folwell, Department of Agricultural Economics, Washington State University, Pullman, WA 99164-6210, and request a copy of the publication resulting therefrom entitled, "United States Hop Industry and the Volume Control Provisions of the United States Federal Hop Marketing Order, 1982," from the author at the above address.

Economic
Effects of
the Flue-Cured
Tobacco Program

In this research, the extent to which this program reduced output and raised price is estimated for the period 1939-79. Benefits of the program to the U.S. peaked in the late 1940's while net transfers to producers reached a plateau from 1945 to 1964 of about \$400 million per year in 1980 dollars and have since then fallen off to about \$150 million. As market shares have fallen, the elasticity of demand for U.S. exports has increased, causing a predictable fall in returns to the programs.

Inquire about this research from J. A. Seagraves, Department of Economics and Business, North Carolina State University, Raleigh, NC 27650.

Economics of
Major Imitation
Dairy Product--
Imitation
Cheese

Economic implications of imitation cheese to overall dairy surplus and pricing problems, with analyses of imitation cheese volume, price, market share, variety, and processor comparisons with natural product.

Inquire about this study and request a related publication, "Economic Impact of Imitation Cheese," University of Wisconsin Agricultural Economics Staff Paper Series #208, August 1982, from Truman Graf, Department of Agricultural Economics, University of Wisconsin, 427 Lorch Street, Madison, WI 53706

Marketing
Orders

Analysis is being carried out in cooperation with the pecan industry on a proposed Federal marketing order for pecan advertising, promotion and market development, and with the Valencia peanut industry on a broader marketing order proposal.

Inquire about this proposal and request a related publication, "Marketing Orders and the Reagan Administration," June 1982, from Tom Clevenger, Department of Agricultural Economics, Box 3169, New Mexico State University, Las Cruces, NM 88003.

Increase of
the Federal
Excise Tax on
Cigarettes

A report has been prepared analyzing the effects of the recent increase in the Federal excise tax on cigarettes. Effects are traced through to international trade in cigarettes and tobacco, to tobacco and other input quantity and prices, and to lease rates for tobacco quota.

Inquire about this analysis and request a related paper, "Effects of an Increase in the Federal Excise Tax on Cigarettes," October 1982, from Daniel A. Sumner or Michael Wohlgenant, Department of Economics and Business, North Carolina State University, Raleigh, NC 27650.

The High
Plains
Ogallala
Groundwater
Study

Decline of water levels in the Ogallala aquifer has led to concerns about values of that water, remaining lifetime of the aquifer, impacts of diminished water supplies, etc. In four publications (cited below), the results of a multi-state study of this problem are presented, including the impacts of declining irrigation on local economies, and the effects of scarce energy and water on irrigated agriculture.

Inquire about this study from Warren L. Trock, Department of Economics, Colorado State University, Ft. Collins, CO 80523, and request the following publications from the author, Robert Young, at the above address: (1) "The High Plains-Ogallala Groundwater Study--An Overview of Strengths and Limitations," Western Agricultural Economics Association Paper, 1981; (2) "Energy and Water Scarcity and the Irrigation Economy on the Colorado High Plains," Sixth Annual Water Policy Workshop Paper, with L. R. Conklin and R. A. Longenbaugh, 1981; (3) "Effect of Energy and Water Scarcity on Pump Irrigation in the Colorado High Plains," AAAS Paper, with L. R. Conklin and R. A. Longenbaugh, 1981; (4) "Economic Impact of Alternative Energy Costs: Pump Irrigation on the Colorado High Plains," AAAS Paper, with R. L. Gardner and L. R. Conklin, 1981.

Small Farm
Operators in
Delaware
Surveyed

Small farm operators in Delaware were surveyed regarding their farm resources and enterprises, marketing practices, off-farm employment, current problems and future plans. The data from this study have been analyzed and reported in two publications to assist individuals working with the small farm audience.

Inquire about this survey from R. Dean Shippy, 226 Ag. Hall, University of Delaware, Newark, DE 19711 or Steven E. Hastings, Hastings, 229 Ag. Hall, University of Delaware, Newark, DE 19711, and request related publications, "The Role and Characteristics of Small Farms in Delaware," November 1981 and "Small Farms in Delaware: Information for Extension Personnel and Vocational Agriculture Teachers," August 1982, from Department of Agricultural Economics, 233 Ag. Hall, University of Delaware, Newark, DE 19711.

Farm Labor
in California

This project examines who does farm work for wages, what will happen to the hired farm work force if immigration laws are changed, and how farmers will respond to changes in the size and composition of the farm work force.

Inquire about this project from Philip Martin, Department of Agricultural Economics, UC-Davis, Davis, CA 95616, and request a related publication, "Employment on California Farms," California Agriculture, Sept.-Oct. 1982, from Dick Venne, Cooperative Extension, UC-Berkeley, Berkeley, CA 94720.

Economic Status
of Family
Farmers in
Southwestern
Minnesota; A
Farmer's
Persepective

This study now underway focuses on the economic conditions of farms in three counties of southwestern Minnesota.

Inquire about this study from Lester Schmid, Southwest State University, Marshall, MN 56258.

World Food
Needs and the
U.S. Supply
Response

The demand for and supply of agricultural products are likely to undergo substantial shifts in coming decades. How important are exports likely to become relative to domestic demand? What would be the likely U.S. supply response to a tightening world food situation? What are the implications for the availability and utilization of natural resources, particularly land and water?

Specific economic forces that might affect U.S. agricultural capacity include: the variability of domestic and foreign production; prospects for increased demand; advances in technology and productivity of resources; possible increases or reductions in access to agricultural resources, particularly land and water; changes in institutions affecting agriculture including markets, government policy, laws and regulations, trade agreements, and access to financial resources; and various regional factors affecting resource availability, productivity, and access to markets.

This study will result in a general, broad report dealing with international prospects, the supply response of U.S. agriculture, and the implications for natural resources. It will also result in several individual, in-depth studies by various ERS researchers on certain aspects of the global food situation.

These individual studies include: technology, instability, dynamic time paths, the availability of land and water, capacity and limiting resources, input and commodity substitution, domestic demand, and a review of literature.

Inquire about this study from Clark Edwards, Senior Economist, Economic Research Service, Room 242, GHI Bldg., U.S. Department of Agriculture, Washington, D.C. 20250.

CONSERVATION POLICY--A RESPONSE FROM THE RESEARCH COMMUNITY

Melvin L. Cotner and Harold G. Halcrow*

Soil erosion has been a topic of public discussion in the United States for over two centuries. Prior to 1900, American farmers moved to new areas when existing lands wore out. With the disappearance of the frontier and rising demand for land, the Nation became increasingly concerned with sustaining production on land already under cultivation. Also, a general concern over the Nation's capacity to meet future requirements for raw materials arose. Timber, mineral and grazing lands were reserved for public management. In the early 1900's, water was impounded for irrigation development and large areas of the West were opened to agricultural development. Agricultural production practices across the Nation intensified; fragile soils were cultivated as agricultural markets developed. Resource use patterns and climatic conditions in the 1930's created major concern about soil conservation. Soil erosion became a significant problem in the Plains and the Southeast regions of the United States. Formal soil conservation programs came into existence at that time.

In the last four decades the fervor to conserve and reserve the natural resource base has been reduced somewhat by the resource users' ability to manage and adopt new production technology. In fact, the extra production capacity required agricultural commodity programs and land retirement schemes to restrict production. In many instances, land retirement complemented conservation objectives; poorer, more erosive lands were withdrawn from intensive use. The expansion of export markets since the 1970's has reversed the situation. Record levels of land are now used for intensive crop production. However, current production levels suggest the need for production restraints.

Conservation program funding, in real terms, has remained level over the past forty years. Conservation investments by the public sector have not increased commensurate with the intensive cropping practices and associated concerns of soil erosion and its impact on water quality. Consequently, a renewed interest in resource conservation has evolved. Questions have been raised, not only about the extent of conservation programs, but also the effectiveness of past approaches

* Melvin L. Cotner is Director of the Natural Resource Economics Division, Economic Research Service, USDA and Harold G. Halcrow is Professor, Department of Agricultural Economics, University of Illinois.

in getting conservation practices and strategies adopted. These events have given rise to academic, administrative and legislative initiatives to study, appraise and recommend new program directions.

This paper summarizes efforts to address soil conservation policy issues sponsored by the North Central Research Committee (NCR)-111 on Natural Resource Policy, a committee of economists and sociologists from universities in the North Central region. Representatives from the Economic Research Service in USDA, as well as the Farm Foundation, also participate in committee activities. The NCR-111 sponsored a symposium on Soil Conservation Policy May 19-21, 1981, in Zion, Illinois. The results of the symposium were published in February 1982. ^{1/} The book is offered as a report for managers, administrators and legislative committees in planning and implementing activities that contribute to informed decisions about the use and management of soil and water resources.

Specifically, the symposium reviewed issues surrounding soil erosion. The symposium presentations first provided an historical and conceptual perspective for conservation efforts, especially actions by the public sector. This was followed by a critique of the soil conservation policy process both at the Federal and State level. Next, the role of the private sector and individual participants in conservation decisions was examined. There was also a section dealing with a re-examination of the conceptual base for public and private action to conserve soil. Finally, alternative strategies to achieve conservation were evaluated.

History of Soil Conservation

Wayne D. Rasmussen, Economic Research Service, in reviewing the history of soil conservation, institutions and incentives, concluded that no matter what alternative strategy might be followed, what cooperation or consolidation of programs were achieved, or what economic projection is indicated as a rational program, the final answer is public support. He traced the continuing and expanding conservation dilemma. In recent years farmers have planted from fence row to fence row in ever larger fields, with ever larger equipment. Farmers have intensified production keeping livestock concentrated in feedlots; since more land is in grain and less in pasture, there is a loss of natural fertilizer. The picture is one of increasing danger to soil and water. But, Rasmussen stated that if the American people are to pay for these programs they must be made aware once again that soil erosion is a national problem, and that it must be dealt with effectively.

^{1/} Halcrow, H.G., Heady, E.O., and Cotner, M.L., (Eds.). Soil Conservation Policies, Institutions, and Incentives, Soil Conservation Society of America. Ankenny, IA, 1982.

George H. Roeder, Northwestern University, in commenting on Rasmussen's paper, agreed with this assessment. Soil conservation is an issue that brings debate over agricultural policies into a large public arena. Americans consider soil erosion a serious problem. Conservation programs must be rooted in the legitimate interests of farmers as well as our largely urban society, without making conservation subordinate to other issues, and without being rendered ineffective by excessive compromise.

Sandra S. Batie, Virginia Tech, observed that many of today's soil conservation programs and the many ancillary programs are today criticized for being ineffective. These criticisms and new demands may redirect these programs toward more cost-effective methods of achieving soil conservation and improved water quality. Local and State programs are also evolving. Other institutions which influence soil conservation--tax policies, tenure arrangements, financial institution policies and government programs--can actually encourage soil depleting practices and warrant attention of the policymakers as well.

R. James Hildreth, Farm Foundation, in discussing Batie's paper, suggested as a first principle of conservation that, if water or wind can be kept from moving too rapidly over the surface of the soil, the soil will not erode and the water that runs off will be clean. But conservation policy and programs have to be designed in such a way that they are adopted and fit in with other goals society has for the use of agricultural land. Programs need to be flexible. The United States may be at a watershed in the direction of soil conservation programs. Too little attention has been given to policies that use indirect methods of achieving a conservation goal. Do innovative and creative options for changing incentives and institutions exist? What are the tradeoffs between direct and indirect programs to achieve conservation?

The RCA Soil
Conservation
Policy Process

Christopher Leman, Brandeis University, examined the Resources Conservation Act of 1977 as an example of resource assessment and program development, a new movement among natural resource agencies that links evaluation with planning. He traced the origins of RCA to legislative and executive conflicts over agency budgets. Rather than look only at the analytical end products, he examined how RCA actually worked as a political process. Particularly significant was the involvement of non-agency analysts in guiding RCA analyses by the agencies. Ultimately, many preferences of these analysts were never implemented because of specific agency interests. However, the inability of RCA to focus on specific program issues different from the status quo stemmed partly from some inherent difficulties in the RCA ideal of comprehensive analysis. Leman concludes by evaluating RCA in comparison with related efforts at evaluation and planning, and draws lessons for future RCA efforts.

In review, Ross B. Talbot, Iowa State University, suggested that the long-term reporting horizons in the RCA provide an opportunity for Congress to avoid or postpone conservation issues. In passing the RCA, politics played a more important role than economics, technology or science. The operational model in this instance was one characterized as involving interest groups, heavily institutional and using the incremental approach. Because conservation involves a zero-sum strategy, it is intrinsically redistributive, hence very difficult to legislate and implement. Talbot concluded that the future of the RCA process is slight; the key to the future of soil conservation depends on the world food situation.

David J. Allee, of Cornell, who served as a consultant to USDA in the RCA research characterized the problem of implementing the RCA. Compromising with the ideals of a rational planning process highlights some of the gaps in our understanding and capacity to achieve the goals of soil and water conservation. Implementation consists of interpretation, organization, and application activities usually carried out by the bureaucracy as the primary implementing institution. The early start by the Soil Conservation Service was too incremental. A broad interagency coordinating committee established to guide the RCA process, never achieved a fully credible comprehensive plan. Economists, as participants in soil and water conservation science, should estimate net incentives for conservation, and show which practices are profitable and therefore reliable. Then self-interest and altruism may be sufficient to conserve many acres. Policy analysts have no choice but to be advocates.

Roger W. Strohbehn, Economic Research Service, in discussing the Allee paper indicated that the legislative intent of the RCA should have been given more attention. USDA was directed to examine the effectiveness of soil conservation programs in the context of accomplishing larger public goals such as maintaining and increasing agricultural output; this is in contrast to a philosophy that soil conservation can be justified simply on its intrinsic merit. He commented that a public opinion survey and public participation to review program alternatives were important parts of the RCA process. These features are unique; other approaches may have been more effective. Strohbehn suggested research on the planning process, including ways to improve interagency coordination.

Lawrence W. Libby, Michigan State, in discussing the interaction of RCA with State and local conservation programs, provided an overview of the State and local institutional structure involved in soil and water conservation. He observed that the law has released an enormous amount of social and political energy, calling for nothing less than taking stock of all the non-Federal land and water in the country, examining performance of existing techniques to reduce erosion, and suggesting new programs that will be required to meet national needs for soil and water. It is a broad and complex Act, based on increasing concern for economic and physical performance of conservation programs. Libby's review of State and local

institutional structure involved in soil and water conservation leads to an appraisal of how this structure might be changed as a result of the forces unleashed by the RCA.

Herbert H. Stoevener, Virginia Tech, in discussing Libby's paper, pointed out that the last four years of the RCA process have greatly increased public awareness of the conservation problem, and have raised the expectations of some State and local conservation organizations that have heretofore received only scant attention. Because of the nature of the conservation problem, more State and local organizations are likely to evolve. He concluded that (1) it is necessary for the Federal Government to be more explicit in what it expects from its own conservation programs, (2) educational programs need to be broadened to encompass more of the informational requirements relevant to group actions, and (3) the issues of cost-sharing must be addressed more squarely as we become more imaginative about its uses.

Attitudes and
Behavior of Farm
Owners and
Operators to
Soil Conserva-
tion

Ted L. Napier and D. Lynn Forster, both from Ohio State University, discussed contemporary attitudes and behavior of farmers concerning adoption of soil erosion control practices. A literature review indicates that farmers tend to hold very positive attitudes toward profit-making, a strong motivating factor for them to employ agricultural practices that erode land resources. The existing literature strongly suggests that many attitudinal inclinations are present among farmers which encourage adoption of soil erosion control practices but that obstacles continue to exist that prevent implementation. Their major conclusion was that voluntary programs which employ some form of economic incentive to encourage adoption will be received more favorably than mandatory programs. It was observed, however, that mandatory programs may be necessary to achieve significant reduction in soil erosion.

William L. Miller, University of Nebraska, discussed the farm business perspective and soil conservation, emphasizing that the key issue in erosion control is that conservation practices must be profitable to the farm firm if they are to be adopted by a farmer; if they are not, then over time a farmer will be at a competitive disadvantage in terms of access to and control of land resources. The farmer must assess the net loss of productivity in order to determine the impact of controlling erosion; and, partly because modern technology greatly increases yields, this has become increasingly difficult to do. Nevertheless, Miller states that it is necessary to determine if a recommended conservation technology is cost-effective for a farmer with a particular financial structure; and if it is not, what level of subsidy would be required to make it profitable.

Lyle P. Schertz and Gene Wunderlich, both from the Economic Research Service, discussed the implications for soil conservation of the changing structure of farming and the distribution of landownership in the United States. Farm numbers, of course,

have decreased greatly, and a large part of the total resource base has become concentrated among larger farms. The future structure will likely involve still larger farm establishments, with multiple operator households and greater separation of ownership and use of resources. Conclusions differ about the relation between ownership and conservation, and most studies underscore the need for unambiguous concepts about conservation and factors such as landownership that purport to influence conservation. Landownership, the interests in land, will become more widely distributed in the future if for no other reason than that there will be more people. But the distribution may become more concentrated in the sense that a larger proportion of land, or interests in land, will be held by a smaller proportion of owners.

Paul W. Barkley, Washington State University, reviewed the papers by Napier and Forster and by Schertz and Wunderlich. Each paper picked up many themes germane to the questions of erosion and conservation; but he concluded that they beg for integration and contemplative recommendations, especially in regard to where financial incentives for conservation should be provided, and which farmers should receive conservation assistance, and which farmers should receive educational efforts. Barkley points out in commenting on the paper by Napier and Forster, that current high costs of farm production almost compel farmers to exploit or mine their land resources, and the external forces such as rising energy costs provide an important partial explanation of farmers' attitudes and behavior. Barkley also notes that Schertz and Wunderlich find no reliable relationships between age of owner, type of farm, tenure or absentee ownership, and the decision to invest in conservation farming; and have not yet stated the problem in terms that are succinct and sensitive enough to give insights into causal relationships. He suggests that researchers should direct attention to the wealth/income trade-off and concentrate on owners more than on operators of farmland.

Peter J. Nowak, Iowa State University, suggested that research concerning farmers' conservation behavior should concentrate on (1) identifying the factors that actually influence conservation behavior, (2) determining the relative efficacy between the different factors identified, and (3) creating a policy format flexible enough to incorporate the diversity and priority represented by these factors. An effective and efficient soil and water conservation policy will evolve by integrating the factors from the individual, farm firm, aggregate, and structural levels of analysis. He concluded that the presentations have made us more fully aware of the need to identify the factors in a concise manner.

Conceptual
Bases for
Conservation

Sylvan Wittwer, Michigan State University, in discussing new technology, agricultural production and conservation, suggested that projections of food and agricultural production are numerous. In fact, we know a great deal about the significance of resource inputs required to meet national and world food

needs of the future. But--the fact is--meeting these needs requires massive inputs of new biologically oriented technologies, that will result in stable high production and be sparing of resources, capital, and management. The challenge is to develop a more diversified resource-conserving set of high-level food production technologies in a world no longer characterized by cheap fossil fuels, and one in which water and land will become increasingly scarce and expensive. We can no longer pattern our agricultural research and technology programs after those of the past. Technology will focus on the biological processes that control and now limit crop and livestock productivity. Management of land resources will concentrate more on conservation tillage and efficient water use, through new technologies now emerging for crop irrigation and soil drainage. Biological limits for crop and livestock productivity have not been realized and stand as challenges for both the research scientist and the producer of food, feed and fiber.

Raymond J. Supalla, University of Nebraska, commented that scientists need to improve their capability to estimate technological change; unless officials can estimate the technological future, rational resource policy will be difficult. Technology which increases output has a direct bearing on conservation needs. Supalla discussed the concept of conservation as social insurance to guarantee resources for future use. He concluded by commenting on the relationship between technological research and conservation suggesting that there is a direct trade-off between the two.

Daniel W. Bromley, University of Wisconsin, in discussing rights of ownership and use, defined three types of situations in which the interests of landowners conflict with the interests of non-owners. The first is the classic off-site conflict in which the action of the farmer or landowner inflicts physical damages on neighbors, or imposes economic costs on society. The second is the intertemporal conflict situation in which there is a distinction or significant difference between private and social rates of time preference. Usually it is assumed that the individual discounts the future at a higher rate than does society, or the individual has a shorter planning horizon than society. The third is a combination of the off-site and intertemporal conflicts, which is the usual problem in soil conservation. Certain rights or privileges are attached to property, such as the right to possess, use, manage, and transmit. But these rights are not absolute, and the economic challenge in developing conservation programs is to leave landowners sufficient domain to make appropriate managerial choices, while recognizing their duty to not impose antisocial costs on others.

University of Illinois economists Bart Eleveld and Harold G. Halcrow, in developing concepts of how much conservation is optimum for society, define the optimum level of soil conservation as that which will maximize the net social income of a society discounted over an accepted planning horizon. The net

social income being the difference between total revenue from production and total cost of production, including all internal and external costs. They state that the net social income function is an aggregate of all on-site and off-site conservation costs. In a general illustration, net social income is net farm income minus costs of erosion, or sediment damage. A number of policy solutions are illustrated. To maximize net social income, it will be necessary at times to increase some activities that cause erosion or pollution, in order that some more severely polluting activities may be reduced. In the use of pesticides, for example, it may be necessary to increase their use in a way that causes pollution, in order to get the reduction in tillage operations that will reduce soil erosion to an acceptable level. Identifying the optimum level of conservation requires an accounting of all costs and returns.

Earl R. Swanson, University of Illinois, suggested that the conservation policy formation process does not follow the market mechanism whereby demands determine choice. Public funding levels for conservation are not determined by rigorous economic analysis, however, once funding is available for conservation programs then economic analysis can aid in program design and implementation. Swanson discussed the importance of land saving (yield enhancing) technology on the optimal rate of soil conservation. He also discusses the need for a high degree of coordination among agencies administering soil conservation and water quality programs.

Earl O. Heady, Iowa State University, developed the concept of trade-offs between soil conservation, energy use, exports and environmental quality. The recent mammoth upsurge in grain exports increased costs external to the farm firm such as soil erosion and accelerated use of water from stock supplies. The changing structure of demand for U.S. farm products favors crop monoculture and exploitive farming, which also supports grain-fed cattle, poultry, and row-crop farming. Many soil situations, which are low-cost in the short run, are soil-exploitive in the long run. Further yield increases are possible and can be produced, providing sufficient investment is made in research in relation to resource endowments and prices.

Lloyd K. Fischer, University of Nebraska, acknowledged that Heady set out the problem in terms with which most people can readily agree. But he argued that substantial reductions in soil loss could be achieved without a penalty, even in the short run. If a decline in soil productivity is not a cost of doing business, then neither is depreciation on a tractor. In addition, dramatic declines in soil loss could be achieved with only modest increases in cost of production. Crop residue management is cited as an example. The responsibility for maintaining the productivity of soil and water resources rests with those who hold the rights to those resources. These rights can be exercised only within whatever constraints society chooses. Fischer concluded by listing the range of

policies society can follow to assure that individual landholders will use their land in a manner that is consistent with social norms.

Alternative
Strategies to
Achieve
Conservation

K. William Easter, University of Minnesota, and Melvin L. Cotner, Economic Research Service, focused on the strategies that have been utilized to encourage conservation. They first discussed the nature, extent and trends of public involvement in soil conservation programs. They found that current programs are not focused on priority soil erosion problem areas. Public investment in conservation programs, in real terms, has been constant since the 1940's. The principal features of the current and recent programs such as cost-sharing, technical assistance, loans, land retirement, public ownership and regulation are appraised. They concluded with a discussion of the several conservation strategies inherent in the programs as well as a listing of data and information needs that would be helpful in addressing conservation program strategies in the future.

Sterling Brubaker and Emery N. Castle, both from Resources for the Future, in their paper addressed the question of conservation policy. They began by developing the logic for public intervention in resource use questions. They discussed the ethical notion of preserving production capacity of the resource base for future generations as a social objective. In addition, the philosophical and legal responsibility for conservation and pollution abatement are discussed. The authors indicated that future policies dealing with exports, both commercial and for food aid, and nutrition will have considerable bearing on resource conservation problems and needs. They indicated that monetary and fiscal policies, inflation, capital gains and requirements for debt service all will have important effects on individual landowners' planning horizons and investment decisions. They concluded their chapter by discussing and assessing direct and indirect program strategies. They propose a subsidy-soil loss tax strategy.

In discussing Brubaker and Castle, Wesley D. Seitz, University of Illinois, focused his comments on the issues of rights, responsibilities, equity and fairness. Specifically, he examined the Brubaker/Castle subsidy-soil loss tax suggestion in terms of equality, Seitz suggests that the subsidy-tax arrangement could widen income distribution--in other words, those with higher incomes may be the principal beneficiaries. He commented that the subsidy-tax plan would put the burden on a specific limited class of landowners. Therefore, the direct burden, or consequence, of the conservation and water quality issue would not be generally shared by all sectors of the economy. He suggested that the subsidy-tax plan creates dilemmas with the criteria of rewarding individuals in accord with their inputs. Both the polluter and the subsequent user of the resource have economic interests at stake. Seitz also discussed intergenerational equity and capital gains aspects of conservation investments. He concluded with a discussion of his suggestion of a conservation tariff on agricultural

exports to provide revenues to support soil conservation programs.

Although some Symposium contributors did suggest approaches to solving the soil conservation problem, the Symposium was not designed to provide solutions. Instead, readers were given insights into the conservation policy process, policy options and program alternatives. Hopefully, their contributions will be of use in future deliberations of conservation policy.

HIGH VALUE FARM PRODUCTS: AN ISSUE FOR THE 1980's

Patrick M. O'Brien and R. Thomas Fulton*

The comparative advantage of the United States in the production of bulk or low value agricultural products (LVP) appears strong enough relative to the other exporting countries to ensure that a constant, quite possibly rising, share of the LVP import market will be supplied by U.S. farmers throughout the 1980's. The situation in the high value product (HVP) market is different, however. Cost advantages in processing and trade policies abroad affect the U.S.'s comparative advantage in the production of inputs.

HVP, or high value farm products, can be divided into three general classifications: 1) semi-processed products which include items such as fresh, chilled and frozen meat, wheat flour, refined sugar, coffee, cocoa, tea, animal feeds, oilseed cake and meal, animal oils and fats and vegetable oil; 2) highly-processed products such as prepared and preserved meats, milk, butter, cheese, cereal preparations, dried fruit, preserved/ prepared fruit, preserved/prepared vegetables, non-chocolate sugar preparations, chocolate, spices, miscellaneous food preparations, beverages and cigarettes and; 3) high value unprocessed products including eggs, fresh fruits, nuts fresh vegetables. Low value farm products, LVP's can include such items as corn, wheat, oilseeds, and cotton.

Of the secondary considerations at work in the HVP export trade, trade policy--defined broadly enough to include all aspects of government-supported marketing--is the most critical. Few segments of the world market for farm products are marked by as broad a degree of policy intervention by both importing and exporting governments as trade in HVP's. While the United States was able to maintain its 9 to 10 percent share of the HVP export market over the 1970's without large-scale policy intervention, it has been at the expense of a shift in the composition of U.S. HVP exports down the processing line toward increased concentration in relatively low value semi-processed products. The prospects for slower growth in world HVP imports in the 1980's and increased competition among HVP exporters suggest that expanding possibly even maintaining, this 10 percent U.S. share of the market in the 1980's will depend on an aggressive marketing program.

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The Emergence of HVP Trade

A number of developments over the 1970's led to the emergence of two distinct world markets for farm products--a market for bulk, low value products and a market for high value, generally processed products. World trade in farm products grew more than 17 percent per year over the decade to \$230 billion in 1980, almost 55 percent of which was traded in the HVP market and 45 percent in the LVP market. This is roughly the reverse of the HVP-LVP balance reported in 1970.

During the 1970's world HVP trade increased by over 400 percent in value. This included an increase of over 600 percent in the value of refined sugar trade and over 450 percent in the value of cheese trade (see Table 1). At the same time, the volume of refined sugar trade increased only 27.8 percent and that for cheese increased by 78 percent (see Table 2).

Over the 1970's, increased affluence and growth in population virtually worldwide generated faster growth in demand for basic food and feedstuffs than most countries could supply from their own farm sectors. The resulting growth in import demand was particularly strong in wheat, corn, and soybeans and the United States succeeded in capturing one-half to two-thirds of the expansion in this bulk trade. Increased affluence in a smaller circle of developed and middle income countries also generated stronger demand for high value, generally processed farm products to upgrade and diversify diets and semi-processed products to fuel final processing plants at home. This growth in demand was fast enough, particularly for new or relatively new products heretofore often considered luxury items, to outpace growth in local production and/or processing capacity. The end result was a significant increase in HVP imports in the developed countries and a phenomenal increase in HVP purchases by middle income countries. Import demand increased most rapidly for meats, dairy products, beverages, and other food preparations.

The bulk of this increase in import demand was filled by the European Economic Community (EC), and to a lesser extent the United States, and a few other generally developed countries with a sizeable processing infrastructure already in place.

World Trade in HVP

While roughly equal in size, the HVP and LVP components of the world market are quite different in structure. The 300 to 400 products included in the HVP groupings are considerably more heterogeneous than the 20 to 30 products included in the LVP classification. This relates not only to the range of commodities involved in HVP trade but also to the degree of processing they receive before being traded; the end result is a large number of often very specialized submarkets within commodity groupings.

EMERGENCE OF A SECOND WORLD MARKET FOR FARM PRODUCTS

(1980 DATA)

\$120 Billion		\$110 Billion	
Fresh fruits & vegetables nuts	High value unprocessed (\$25 bil)	Raw materials (\$25 bil)	Rubber tobacco cotton
Dairy products food preparations	Highly processed (\$35 bil)		
Flour Oilseed meal \$ oil meats	Semi- processed (\$60 bil)	Bulk food products (\$85 bil)	grains oilseeds
	High Value Products (HVP)	Low Value Products (LVP)	

The basis for trade and the range of countries involved in HVP and LVP trade also differ markedly. The basis for HVP trade is often not so much an exporter's comparative advantage in the production of a product, as is common in LVP trade, but the exporter's comparative advantage in processing and marketing the product. Equally important, the higher unit transportation costs involved in HVP trade also makes geography a major determinant of trade patterns.

The HVP market is also not dominated by a few suppliers to the same extent as the LVP market where 4 countries--the United States, Canada, Australia, and Argentina--supply two-thirds of the trade. There are also considerably more large-scale importers in the HVP market than in the LVP market. However, most of the countries involved in the HVP import and export trade tend to be the affluent developed countries or fast growing middle income countries as indicated in Table 3, while the share of HVP imports was declining during the 1970's for the most developed nations in the West, the percentage of HVP imports flowing to the newly affluent oil-producing nations was generally increasing.

Trade in HVP items is also dominated to a far greater extent by vertically integrated multinational corporations than LVP trade. Many HVPs are sold by international corporations that control some aspect of production, processing, and marketing in their country of origin, handling on the world market, and final processing and marketing in the country

that ultimately uses the products. Trade in LVP products, on the contrary, tends to be dominated by a few large firms that specialize in international marketing and depend on other corporations, farmer cooperatives, and even individual farmers and businessmen for the production and marketing of their products in both the country of origin and use.

The role of the farm and non-farm sectors in HVP and LVP trade also differ markedly. In the case of LVP trade, 60 to 70 percent of the return on exports often accrue to the farmer while returns to processors and marketing interests can be as low as 20 to 30 percent. In the HVP trade, however, manufacturing and processing interests outside the farm sector often command 50 to 75 percent of the return on exports as value added while the return to the farm sector can be as low as 10 to 15 percent. To fully appreciate the implications of these differing returns, it should be kept in mind that export unit values in the LVP trade can average \$200 to \$300 per ton compared with \$1,000 to \$1,500 per ton for HVP products.

The sources of growth in the two markets differ as well. In the most general terms, unit price gains have been stronger relative to volume gains in the HVP market than in the LVP market. Appreciably more of the 17 percent annual gain in the value of HVP trade over the 1970's was due to price increases than in LVP trade. On average, HVP export prices have increased 10 to 14 percent per year while volume gains averaged 3 to 7 percent. Of course the range in average price and volume increases during the 1970's varies greatly. Thailand had an annual volume growth rate of over 20 percent and an average value growth rate of over 31 percent from 1970 to 1978. At the other end of the spectrum, Switzerland experienced a negative annual growth rate in volume, -2.6 percent, yet still realized an annual increase in the value growth rate of over 11 percent. The U.S. was inbetween with an annual growth rate in volume of 8.3 percent and an annual growth rate in value of nearly 17 percent (see Table 4).

LVP trade value gains, on the other hand, have been due almost equally to volume and price gains. Growth in the HVP market has also been more regular over time than growth in the highly variable LVP market. In short, HVP exporters have been able to capture a larger and larger share of the value of world agricultural trade while supplying a shrinking share of the volume of world agricultural trade. And LVP exporters, while supplying a larger share of the volume of world agricultural trade, face erosion in their share of the value of world agricultural trade and increased instability as well.

From the U.S. perspective, much of the growth in the HVP market has gone to other suppliers--quite the reverse of the LVP market where the United States has expanded its share of the market. As Table 3 indicates, the U.S. barely increased its share of HVP exports during the 1970's, while the EC increased its share by over one-third. This performance relates not so much to limits on the U.S.'s capacity to produce HVP

products for export but to more aggressive marketing and the use of promotion and subsidy programs by competing HVP exporters.

HVP Export Performance

HVP trade in the 1970's suggests that exporters fall into one of two broad categories. The EC, the United States and Canada can be classified as large, diversified exporters with sophisticated HVP production, processing, and marketing systems functioning primarily to service their own affluent populations. Export markets are simply extensions of their domestic markets and often account for only 5 to 10 percent or less of their total output. But these countries are by far the largest source of HVP exports and supplied more than 60 percent of the world market in 1980; the United States and the EC are the largest exporters of practically all of the HVP product groups studied. These countries are not only the largest exporting countries; they are also leading HVP importers and often report trade deficits in processed agricultural products.

The second group of HVP exporters is made up of either middle income developing countries and developed countries that--for reasons of limited market size, location, natural resource endowment, or relatively low per capita incomes--specialize in producing only a few HVP products. The products traded are generally those in which the country has a natural comparative advantage or a policy related advantage consciously developed using production subsidies, aggressive market promotion, and/or export rebates. Countries in this group also tend to have less of a global market for their products. New Zealand and Mexico are good examples of the first subgroup that depends heavily on a natural comparative advantage. New Zealand specializes in the export of dairy products and meats and markets about 60 percent of its HVP exports in the EC, the United States and the OPEC countries. Mexico supports mainly coffee, fresh vegetables, and preserved fruit to the United States and the EC. Brazil, on the other hand, depends both on a natural advantage in the production of raw products and an extensive system of domestic and trade policy programs to improve its position in the market.

While precise export flows over the 1980's are difficult to project because of the wide range of products and countries involved, these same broad HVP export patterns are likely to continue in the 1980's. In general terms, the semi-processed and high value unprocessed components of the market are likely to continue to be shaped largely by natural resource endowment, climatic, and seasonal factors. For example, cocoa and coffee products from Brazil, dairy and meat products from New Zealand and Australia, and fresh vegetables from Mexico will continue to characterize their trade through the 1980's. Trade in the highly processed products is more difficult to forecast and is dependent on the development of processing capacity, domestic demand, and commercial importing power in the middle income countries.

Uncertain balance of payment and exchange rate developments over the next 10 years will also determine the extent to which countries such as Brazil and Argentina find it profitable to invest in large sums in local currencies to promote the sale of items abroad such as vegetable oils and meals for hard currencies. Trade patterns are also likely to continue to be set to a large extent by geographic relationships--i.e. the EC's close proximity to the Eastern European and the North Africa/Middle Eastern markets, and the United States close proximity to the Canadian, Mexican and Caribbean markets. The accession of Greece and Spain will affect fruit trade within the EC as well as in Eastern Europe and the Mediterranean area. The matrix in Table 5 highlight the major HVP exports and their largest markets.

But it is the use of trade and domestic agricultural policies by most of the HVP exporters to promote the sale of their products that is likely to be the major determinant of the pattern, volume, and product composition of HVP exports in the 1980's--as well as the major source of uncertainty about trade. By far the most important and disruptive of these HVP-related trade and domestic policies is the export subsidy. The range of products subsidized and the extent of the subsidy tend to depend on purely domestic and often unforeseeable developments in the exporting country and competitive reactions by other traders.

In addition to this element of policy uncertainty is the damage subsidies do to the functioning of the international market, particularly the certainty with which the market can handle short term fluctuations in the supply and demand for farm products with a minimum of disruption. Subsidies send the wrong price signals to producers and consumers in both the importing and exporting countries.

In general, export subsidies tend initially to lower prices below what they would otherwise be and ultimately to destabilize the market by encouraging growth in demand in importing countries while discouraging growth in production in the exporting countries without subsidies. The extent of this disruption depends on the specifics of the market involved, the trade barriers at work, and the market share of the exporters involved. When international prices are strong, the main effect is on the volume of products sold and exporters without subsidies--often the lowest cost producers--lose some part of their share of the market. When international prices are weak, subsidies work to weaken them further. Export revenues are lowered and production is cutback in the countries tied directly to the world market to a far greater extent than market forces would otherwise suggest. The end result is increased instability in the market and uncertainty about trade volume and value even in the face of relatively clear indications of the general direction and likely magnitude of trade over the long run.

HVP Import Performance

Virtually every country in the world imports some high value agricultural products and the rationale underlying these imports does not differ from the rationale underlying the import of most other agricultural products. HVP imports are made when a country cannot meet domestic demand from indigenous production. This shortfall between domestic production and demand can be caused by poor harvests, faster growth in demand than supply, or the inability to produce or process a given product. Over the long run, shortfalls can also occur because of the greater economic competitiveness of foreign suppliers.

A number of added, uniquely HVP demand factors have also been at play over the 1970's to expand imports at a particularly rapid pace and should continue to encourage trade in the 1980's. By 1990, the total value of HVP may have increased from \$120 billion to as high as \$405 billion--an increase of over 275 percent (see Table 6). Included are increases of up to 320 percent for poultry and 290 percent for cheese.

Demand for HVP items is shaped to a large degree by the desire to upgrade and diversify diets, to provide the semi-processed inputs needed to operate final processing industries, and to ease food preparation time and labor requirements. These factors in combination tend to make HVP demand extremely income elastic; income elasticities of demand for HVP world-wide appear to be in the range of .5 to 2, compared to a range -.1 to .5 for the lower value bulk products. Given the often limited capacity of the affluent countries--particularly the newly affluent--to meet the HVP demand generated by rising per capita incomes, import demand had grown in many cases as fast or faster, albeit from a smaller base, than growth in overall domestic demand.

Developed countries with per capita incomes in excess of \$5,000 per year account for the bulk of the world's HVP imports. In 1980, the countries of the EC, the United States, Japan, and Canada alone accounted for two-thirds of world HVP imports (see Table 3). These 14 countries all more than tripled their HVP purchases over the last 10 years, and only in Japan do high value imports make up less than half of the agricultural import total.

Spectacular as this growth has been, however, the developed countries are gradually losing their position of dominance in the HVP market to the more affluent developing countries. While developed countries accounted for over 77 percent of the world's HVP imports in 1970, by 1980 they accounted for less than 67 percent. This slippage in import market share was due not to any slow-down in growth in developed country purchases but to very rapid growth in HVP import demand in the affluent developing countries, especially the OPEC countries. The OPEC countries increased their share of world HVP imports from 3 percent in 1970 to over 11 percent in 1980 (see Table 3). The United Arab Emirates, for example, imported nearly 60 times more HVP's in 1980 than in 1970, while Saudi Arabia's HVP imports rose 2,600 percent.

The OPEC countries are not the only developing countries whose imports of high value agricultural products are growing rapidly. Hong Kong, Singapore, Korea, and Taiwan have increased their imports dramatically as have Egypt, Mexico, Spain and Greece. Both groups have increased their share of world HVP imports sharply, particularly over the last half of the 1970's and demonstrate considerable potential for continued rapid growth in the 1980's. Several of the more affluent centrally-planned countries also experienced rapid growth in HVP imports.

In general, while the outlook for HVP trade over the decade ahead is uncertain, economic growth in the increasingly affluent developing countries and the lower income developed countries is likely to be strong enough to expand import demand \$10 to \$15 billion per year in the 1980's compared with \$7 to \$10 billion per year toward the end of the 1970's. However, increasingly saturated markets in the richest developed countries, combined with greater emphasis on developing local processing capacity in the middle income countries, are likely to slow the pace of growth somewhat to 10 to 14 percent per year over the decade ahead compared to the 17 percent of the 1970's.

The most pervasive of the HVP demand factors at play over the last decade has been the commitment of governments to and the demand of consumers for upgraded diets. This upgrading has generally taken the form of adding more pork, poultry, mutton, beef, higher grade flour, vegetable oils, vegetables, and dairy products to the diet. Added consumption of these commodities results in a more balanced diet with appreciably higher consumer appeal. The impact of this upgrading on HVP demand is immediate and direct. Increased demand for meat generally generates either increased demand of semi-processed HVPs to be used as inputs by local livestock producers (i.e., oil meals), intermediate products destined for further finishing before final marketing (i.e. lower grade cuts of beef), or highly processed, consumer-ready products (i.e., canned hams). This process of diet upgrading has long since occurred in the developed countries, but is presently just beginning in many of the middle income countries.

Another critical factor increasing demand for high value products is the desire to diversify upgraded diets--to eat a broader range of foods, often new or initially exotic foods. While upgrading results in increased demand for established products--for example, increased demand for mutton in the Middle East--diet diversification works to expand demand for a greater variety of products, many of which may not be produced locally or are available in season only. Given the investment involved in developing the capacity to process new products and the economies that come only with large scale operations, diet diversification often tends to accelerate growth in HVP imports to a greater extent than diet upgrading. Often the commodities demanded to diversify diets come to be considered necessities as incomes grow and local processing

capacity and/or import channels are established. This has already happened in many of the developed countries and even the affluent classes in the low income countries as well.

Many processed foods are also in high demand in urbanized societies for their labor-saving and storage characteristics. Processed foods often save a great deal of time in meal preparation; for instance, the ease of preparation appears to account for much of the demand for canned goods in both developed and developing countries. The easy storage of many processed foods, again most notably canned goods, is also a major demand factor; canned or otherwise, preserved products substitute for fresh products which are not available at selected times of the year or cannot be kept on hand without often costly or unavailable refrigeration. Like many other HVP foods, convenience items often become necessities as they are more widely used.

Summary

This article, the summary of a much longer manuscript currently in the final stages of preparation, assesses the developments in the world market for high value farm products HVPs over the 1970's and their prospects for growth in the 1980's. Trade in HVPs increased fast enough in the 1970's to overtake the trade in bulk, low value farm products LVPs that traditionally dominated world agricultural trade. And while the United States was able to maintain its share of the rapidly expanding HVP export market, these U.S. exports fell short of the levels that could have been expected, given the volume of trade involved and the U.S.'s input and processing cost advantages. The U.S.'s success in expanding its share of the LVP market appears to have distracted attention over much of the 1970's from export opportunities in the higher value half of the world market for farm products. Conversely, export promotion programs and aggressive marketing focused precisely on high value farm products put several of our direct competitors in a strong position to capture a disproportionately large share of the growth in world HVP exports.

Table 1--World HVP Trade by Value

Product and SITC Code	Value of Trade	
	1970	1980
	Billion Dollars	
011 Meats (fresh, chilled, and frozen	3.55	7.31
011 Meats (dried, salted, and smoked)	.39	1.04
014 Meats (canned)	.91	2.78
022 Milk and Cream	.79	4.92
023 Butter	.66	3.41
024 Cheese	.74	4.10
025 Eggs	.26	1.15
411.3 Animal Oils and Fats	.34	1.29
081.4 Meat and Fish Meal	.04	.19
Selected Livestock Products	7.68	36.19
046 Wheat Flour	.44	1.89
048 Cereal Preparations *	.19	1.17
081.2 Bran, etc.	.15	.46
Selected Cereal Products	.78	3.52
051 Selected Fruits and Veggies fresh) 1/	2.1	8.03
053.9 Fruit (canned)*	.37	1.25
053.5 Fruit Juices*	.19	1.30
054 Vegetables (fresh and simply pr'vd)	1.08	3.81
055 Vegetables (preserved and prepared)*	.45	1.73
Fruits and Vegetables	4.19	16.12
061.2 Refined Sugar	1.97	14.37
062 Sugar Preparations *	.08	.39
071.1 Coffee (green or roasted)	3.08	12.59
072.1 Cocoa Beans (raw or roasted)	.86	3.00
072.2-3 Cocoa Pd'ts (pd'r, cake, paste)	.28	1.98
073 Chocolate and Products	.25	1.75
074 Tea and Mate	.70	1.90
075 Selected Spices	.11	.32
Selected Tropical Products	7.33	36.30
423-424 Vegetable Oils	1.50	7.99
081.3 Oilseed Cake and Meal	.92	5.44
Selected Oilseed Products	2.42	13.43
091.3-4 Lard, Fat, and Margarine	.19	.74
112.1 and 112.3 Wine and Beer	1.19	5.73
122.2 Cigarettes *	.14	1.09
Selected Miscellaneous Products	1.52	7.56
Total Above 3/	23.92	113.12

1/ Selected with 057 included.

2/ Selected.

3/ World total includes several added items that raise the 1980 level to \$120 billion.

Source: FAO, except for some highly processed products (with asterisks) where data are from the UN, reflecting on aggregate of major reporting countries trade as a world proxy.

Table 2--World Trade by Volume

Product and SITC Code	Volume of Trade	
	1970	1980
	Million tons	
011 Meats (fresh, chilled, and frozen)	4.57	8.14
012 Meats (dried, salted, and smoked)	.45	.37
014 Meats (canned)	.81	2.92
022 Milk and Cream	quantity not reported	
023 Butter	.91	1.39
024 Cheese	.79	1.41
025 Eggs	.48	.84
0411.3 Animal Oils and Fats	1.80	2.56
081.4 Meat and Fish Meal	.38	.65
Selected Livestock Products	10.19	18.28
046 Wheat Flour	10.19	18.28
048 Cereal Preparations *	.74	1.70
081.2 Bran, Pollard, Sharps, etc.	3.16	3.56
Selected Cereal Products	14.09	23.54
051 Fruits and Nuts (fresh) 1/	15.88	21.03
053.9 Fruit (canned) *	1.13	2.40
053.5 Fruit Juices *	.83	1.56
054 Vegetables (fresh and simply pres'd)2/	8.20	10.98
055 Vegetables (preserved and prepared) *	1.13	1.46
Selected Fruits and Vegetables	27.17	37.43
0612 Refined Sugar	21.40	27.35
062 Sugar Preparations *	.12	.24
071.1 Coffee (green or roasted)	3.27	3.74
072.1 Cocoa bean (raw or roasted)	1.13	1.04
072.2-.3 Cocoa Prod' (pwd'r, cake, paste)	.28	.51
073 Chocolate and Products	N.A.	.58
074 Tea and Mate	.75	.95
075 Selected Spices	.18	.16
Selected Tropical Products	27.13	34.57
423-424 Vegetable Oils	5.11	12.11
081.3 Oilseed Cake and Meal	11.00	25.70
Selected Oilseed Products	16.11	37.57
091.3-.4 Lard, Fat, and Margarine	.63	.97
112.1 and 112.3 Wine and Beer	4.87	7.08
122.2 Cigarettes *	.03	.11
Selected Miscellaneous Products	5.53	8.16

1/ Selected with 057 included.

2/ Selected.

Source: FAO, except for some highly processed products (with asterisks) where data are from the UN; UN data are based on aggregations of major reporting countries' trade used as a world proxy.

Table 3--Market shares of selected HVP traders, 1970 and 1980 ^{1/}

Country	1970	Country	1980
	Exporters		Exporters
	Value		Value
Percent		Percent	
EC-9 2/	33.3	EC-9 2/	44.6
EC-9 3/	12.1	EC-9 3/	16.6
U.S.	9.3	U.S.	9.5
Brazil	5.2	Brazil (79)	4.8
Australia	3.1	Spain	2.7
Spain	2.8	Australia	2.3
New Zealand	2.6	New Zealand	1.9
Canada	2.5	Canada	1.5
Argentina	2.3	Argentina	1.5
India	1.9	India	1.3
Switzerland	1.1	Mexico (77)	.9
Mexico	1.1	Greece	.9
Country	1970	Country	1980
	Importers		Importers
	Value		Value
Percent		Percent	
EC-9 2/	51.2	EC-9 2/	50.3
EC-9 3/	29.5	EC-9 3/	22.6
U.S.	17.5	U.S.	12.9
Eastern Europe	6.0	OPEC	7.8
Japan	3.4	Eastern Europe	5.0
Canada	3.2	Japan	4.7
OPEC	2.7	Canada	2.4
Sweden	2.3	Saudi Arabia	2.3
Switzerland	2.3	USSR	1.8
Spain	1.4	Switzerland	1.8
Hong Kong	1.3	Sweden	1.6
Caribbean	1.1	Hong Kong	1.4
Austria	1.0	Poland	1.4
Singapore	.9	Spain	1.2
Poland	1.0	Nigeria	.9
USSR	.9	Egypt	.9
Poland	1.0	Singapore	.9
USSR	1.2	Caribbean	.9

^{1/} Units vary by commodity but are converted to metric ton equivalent; some commodities lack unit data, however. See text for commodities.

^{2/} Includes intra EC-9 trade.

^{3/} Excludes intra EC-9 trade.

Source: UN Trade Statistics

Table 4--HVP Export Volume and Value, 1970 and 1980 1/2/

Country/Region	1970		1980		Annual Growth Rate 3/ 1970:1980:	
	4/	5/	4/	5/	4/	5/
	Volume	Value	Volume	Value	Volume	Value
	1000MT	Mil.\$	1000MT	Mil.\$	--Percent--	
EC-9 (total)	22,495	8,649	86,394	53,488	14.4	20.0
EC-9 6/	8,279	3,140	18,569	19,876	8.4	20.3
U.S.	10,405	2,380	23,081	11,378	8.3	16.9
Brazil	2,830	1,342	8,509	5,771	13.0	7/ 17.6 7/
Spain	3,424	714	4,076	3,295	1.8	16.5
Australia	1,067	793	1,731	2,777	5.0	13.4
New Zealand	1,030	677	1,515	2,291	3.9	13.0
Canada	2,456	640	3,146	1,851	2.5	11.2
Argentina	333	613	507	1,773	5.4	8/ 14.2 8/
India	N/A	482	N/A	1,501	N/A	15.2
Mexico	774	250	1,638	1,049	11.3	9/ 22.7 9/
Greece	671	160	1,842	1,041	10.6	20.6
Switzerland	268	304	207	886	-2.6	11.3
Turkey	676	184	732	836	0.9	7/ 18.6 7/
Singapore	697	180	1,105	817	4.7	16.3
Thailand	1,573	90	6,789	801	20.1	8/ 31.4 8/
Taiwan	N.A.	224	N.A.	651	N.A.	16.5 9/
Japan	320	172	442	608	3.3	13.5
Total Above 6/	24,951	10/ 11,863	48,531	10/ 55,721	6.9	10/ 16.7

1/ Calendar year 1980 data except for Brazil (1979), Turkey (1979), Argentina (1978), Thailand (1978), India (1979), Mexico (1977), and Taiwan (1977).

2/ Includes aggregate of highly processed, semi-processed, and high unit value unprocessed products listed on page 4.

3/ Annual compound growth rates from 1970 to 1980, except where noted.

4/ Units vary by commodity, but are converted to metric ton equivalent; for some commodities, however, no unit data are available.

5/ Values are those reported by exporters to the UN.

6/ Excludes intra-EC trade.

7/ 1970 to 1979 growth rates.

8/ 1970 to 1978 growth rates.

9/ 1970 to 1977 growth rates.

10/ Excludes Thailand for volume because data is reported including cassava, a low value, unprocessed product. Source: UN Trade Statistics.

Table 5—Trade in high value and processed agricultural products, major exporters and their markets, 1980 1/

Exporter/ importer	Sweden	Hong Kong	Spain	Austria	Singapore
			Million dollars		
EC-9	601	174	382	606	115
:Beverages <u>2/</u>		Beverages	Beverages	Vegetable oil	Beverages
:Fresh veg. <u>2/</u>		Cigarettes	Milk & cream	meals	Cigarettes
:Cereals preps. <u>2/</u>		Cereals preps.	Misc. food preps.	Fresh fruit	Cereal preps.
				Fresh veg.	
United States	85	309	161	10	112
:Fresh fruit		Cigarettes	Cigarettes	Fresh fruit	Meats
:Dried fruit		Fresh fruit	Fresh fruit	Preserved fruit	Cigarettes
:Preserved		Meats	Animal fats	Dried fruit	Fresh fruit
: fruits			& oils		
Brazil	139	4	185	19	47
:Coffee		—	Coffee	Coffee	Veg. oil meals
:Preserved		—	Cocoa	Cocoa	
: fruits			Veg. oil meals		
Spain	48	1	—	20	1
:Fresh fruit		—	—	Fresh fruit	Vegetable oil
:Fresh veg.				Preserved fruit	Wheat preps.
:Beverages				Fresh veg.	Eggs
Australia	22	60	1	—	78
:Meats		Meats	Meats	—	Meats
:Preserved		Milk & cream		—	Fresh fruit
: fruits		Cereal preps.		—	Fresh veg.
New Zealand	3	21	2	1	42
:Fresh fruit		Meats	—	—	Milk & cream
: & nuts		Butter	—	—	Meats
:Meats			—	—	Butter
Canada	5	17	9	—	2
:Prepared veg.		Vegetable oils	Milk & cream		Vegetable oils
:Meats		Fresh fruit	Vegetable oil		
		Preserved veg.	Preserved veg.		
Argentina (1978)	11	4	75	7	1
:Fresh fruit		Meats	Meats	Meats	—
			Vegetable oils		—
			Fresh veg.		—
Mexico (1977)	4	—	39	1	—
:Preserved		—	Fresh veg.	—	—
: fruits			Coffee	—	—
			Cocoa	—	—
Greece	3	—	—	11	—
:Beverages				Fresh fruit	

Continued--

Table 5--Trade in high value and processed agricultural products, major exporters and their markets, 1980 1/--Continued

Exporter/ importer	EC-9	United States	Japan	Canada	Switzerland
			Million dollars		
EC-9	33,612	2,235	651	433	1,134
:Meats 2/		Beverages	Beverages	Beverages	Beverages
:Beverages 2/		Cheese & curd	Meats	Cheese & curd	Fresh fruit
:Fresh veg. 2/		Coffee	Cereal preps.	Chocolate & prod.	Fresh veg.
United States	3,318	--	1,124	1,127	75
:Veg. oil meals		--	Meats	Fresh fruit	Fresh fruit
:Food waste & feed, n.e.s.		--	Fresh fruit	Fresh. veg.	Meats
:Fresh fruit			Food waste & feed	Preserved fruit	Preserved fruit
Brazil	2,110	1,073	175	56	49
:Veg. oil meals		Coffee	Coffee	Preserved fruit	Coffee
:Coffee		Cocoa	Meats	Coffee	Meats
:Cocoa		Preserved fruit	Cocoa	Cocoa	
Spain	1,959	180	26	40	99
:Fresh fruit		Preserved veg.	Meats	Coffee	Fresh fruit
:Fresh. veg.		Beverages	Beverages	Preserved veg.	Beverages
:Beverages		Veg. oils	Preserved fruit	Beverages	Fresh veg.
Australia	197	857	522	103	2
:Meats		Meats	Meats	Meats	Preserved fruit
:Dried fruit		Cheese & curd	Cereal preps.	Dried fruit	
:Preserved fruit		Beverages	Cheese & curd	Preserved fruit	
New Zealand	637	439	163	88	5
:Meats		Meats	Meats	Meats	Meats
:Butter		Cheese	Cheese		
:Cheese		Fresh fruit & nuts	Misc. food preps.		
Canada	281	868	177	--	6
:Meats		Beverages	Meats	--	Food waste & feed
:Fresh veg.		Meats	Animal fats & oils	--	Prepared veg.
:Veg. oil meals		Cereal preps.	Food waste & feed	--	
Argentina	763	52	41	6	19
:Meats		Preserved fruit	Meats	Cheese	Meats
:Veg. oil meals		Cheese & curd	Meat/fish meal, fodder		
:Veg. oils		Tea and mate			
Mexico (1977)	69	606	8	9	38
:Coffee		Coffee	Coffee	Preserved fruit	Coffee
:Preserved fruit		Fresh veg.			
:Fresh veg.		Dried fruit			
Greece	458	23	--	6	5
:Fresh fruit		Preserved veg.	--	Preserved veg.	Fresh veg.
:Dried fruit		Beverages	--		
:Preserved fruit		Dried fruit	--		

1/ Data are for CY 1980 except in the case of Brazil (1979), Argentina (1978) and Mexico (1977).

2/ Top commodity groups in order of value.

Table 6--World Imports of High Value Agricultural Products, Actual and Projected

Item	HTC Code	1970				1980				1990			
		Volume	Unit	Value	Unit	Volume	Unit	Value	Unit	Volume	Unit	Value	Unit
		1,000 M. tons		Mil. \$	\$/ton	1,000 M. tons		Mil. \$	\$/ton	1,000 M. tons		Mil. \$	\$/ton
I. Semi-Processed Products													
Roasted Coffee	071.1	3,278		945		3,739		3,365		4,000-4,050		6,100-8,000	
Beef	011.1	2,088		910		3,378		2,589		5,100-5,600		4,350-5,200	
Vegetable Oil	042	5,153		295		12,108		8,007		19,500-25,500		1,075-1,275	
Refined Sugar	061.2	4,711		118		8,180		4,711		11,500-12,750		850-940	
Poultry	011.4	502		671		1,452		2,128		2,600-3,200		2,300-2,800	
Wheat Flour	016	5,035		84		8,685		1,892		9,250-10,500		500-600	
Pork	011.3	1,040		908		1,833		4,334		2,900-3,500		4,200-5,000	
Sheepmeat	011.2	733		552		793		1,398		1,150-1,300		3,650-4,400	
II. Highly Processed Products													
Milk	022	2,610		304		5,954		4,920		9,750-11,500		1,250-1,500	
Cheddar	024	750		937		1,411		2,907		2,050-2,400		6,350-7,400	
Butter	023	911		729		1,385		2,464		1,500-1,875		4,000-4,800	
Milk	112.1	3,692		247		4,733		4,614		5,800-6,300		2,000-2,400	
Beer	112.3	1,159		191		2,234		1,122		3,600-4,400		750-950	
Fruit Juice	053.5			210				1,545				2,750-4,100	
Non-Alcoholic Bev.	111.0			39				602				3,000-3,500	
Vegetable Preps.	055			624				2,600				500-700	
Canned Fruit	053.9			423				1,600				6,750-9,000	
Cereal Preparations	048			358				2,400				3,600-4,800	
Cigarettes	122.2			253				2,500				5,000-6,000	
Instant Coffee	071.3			146				990				6,500-9,500	
Chocolate	073			245				1,700				1,750-2,500	
Sugar Candy Trade	062			137				750				3,500-5,000	
III. High Value Bulk Products													
Fresh and Dried Fruit	051			2,600				14,500				37,000-45,000	
Fresh and Dried Vegetables	054			1,300				8,100				23,000-29,000	
Eggs	023			250				1,000				2,250-2,750	
Total Above				19,176				99,826				250,350-317,650	
Total				25,000				120,000				310,000-405,000	

AGRICULTURE-FOOD POLICY DECISIONS UPDATE

by Richard W. Rizzi*

Table 1--Commodity Program Levels

<u>Commodity</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Wheat</u>				
Target price (\$ per bu.)	<u>1/3.63</u>	3.81	<u>2/4.05</u>	<u>2/4.30</u>
Loan level (\$ per bu.)	3.00	3.20	<u>2/3.55</u>	<u>2/3.65</u>
Reserve loan level (\$ per bu.)	3.30	3.50	4.00	<u>3/4.00</u>
Reserve release level (\$ per bu.)	<u>4/4.20</u>	<u>4/5/4.48</u>	4.65	N.R.
Reserve call level (\$ per bu.)	<u>6/5.25</u>	<u>6/7/5.60</u>	--	--
Acreage reduction (percent)	--	--	15	15
Paid diversion (percent)	--	--	--	5
National program acreage (mil. acres)	75.0	84.5	<u>8/</u>	<u>8/</u>
<u>Corn</u>				
Target price (\$ per bu.)	<u>1/2.35</u>	2.40	<u>2/2.70</u>	<u>2/2.86</u>
Loan level (\$ per bu.)	2.25	2.40	<u>2/2.55</u>	<u>2/2.65</u>
Reserve loan level (\$ per bu.)	2.40	2.55	2.90	N.R.
Reserve release level (\$ per bu.)	2.81	9/3.00	3.25	N.R.
Reserve call level (\$ per bu.)	<u>10/3.26</u>	<u>7/10/3.48</u>	--	--
Acreage reduction (percent) <u>11/</u>	--	--	10	10
Paid diversion (percent) <u>11/</u>	--	--	--	10
National program acreage (mil. acres)	83.5	80.5	<u>8/</u>	<u>8/</u>
<u>Grain Sorghum</u>				
Target price (\$ per bu.)	<u>1/2.50</u>	2.55	2.60	2.72
Loan level (\$ per bu.)	2.14	2.28	2.42	2.52
Reserve loan level (\$ per bu.)	2.28	2.42	2.75	N.R.
Reserve release level (\$ per bu.)	2.68	9/2.85	3.10	N.R.
Reserve call level (\$ per bu.)	3.10	<u>7/3.31</u>	--	--
Acreage reduction (percent) <u>11/</u>	--	--	10	10
Paid diversion (percent) <u>11/</u>	--	--	--	10
National program acreage (mil. acres)	14.7	14.3	<u>8/</u>	<u>8/</u>
<u>Barley</u>				
Target price (\$ per bu.)	<u>1/2.55</u>	2.60	2.60	2.60
Loan level (\$ per bu.)	1.83	1.95	2.08	2.16
Reserve loan level (\$ per bu.)	1.95	2.07	2.37	N.R.
Reserve release level (\$ per bu.)	2.29	9/2.44	2.65	N.R.
Reserve call level (\$ per bu.)	2.65	<u>7/2.83</u>	--	--
Acreage reduction (percent) <u>11/</u>	--	--	10	10
Paid diversion (percent) <u>11/</u>	--	--	--	10
National program acreage (mil. acres)	8.4	10.2	<u>8/</u>	<u>8/</u>

Continued--

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Table 1--Commodity Program Levels--Continued

<u>Commodity</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Oats</u>				
Target price (\$ per bu.)	--	--	1.50	1.60
Loan level (\$ per bu.)	1.16	1.24	1.31	1.36
Reserve loan level (\$ per bu.)	1.23	1.31	1.49	N.R.
Reserve release level (\$ per bu.)	1.45	1.55	1.65	N.R.
Reserve call level (\$ per bu.)	1.68	7/1.80	--	--
Acreage reduction (percent) <u>11/</u>	--	--	10	10
Paid diversion (percent) <u>11/</u>	--	--	--	10
<u>Rye</u>				
Loan level (\$ per bu.)	1.91	2.04	2.17	2.25
<u>Soybeans</u>				
Loan level (\$ per bu.)	5.02	5.02	5.02	N.R.
<u>Upland Cotton</u>				
Target price (cents per lb.)	58.4	70.87	2/71.00	2/76.00
Loan level (cents per lb.) <u>12/</u>	48.0	52.46	57.08	2/55.00
Acreage reduction (percent)	--	--	15	20
Paid diversion (percent)	--	--	--	5
National program acreage (mil. acres)	11.7	12.8	8/	8/
<u>Extra Long Staple (ELS) Cotton</u>				
Loan level (cents per lb.) <u>2/</u>	93.50	99.00	99.89	96.25
National marketing quota (1,000 bales)	161	195	157	102
National acreage allotment (1,000 acres)	131.7	150.2	120.2	80.1
<u>Flue-Cured Tobacco</u>				
Loan level (cents per lb.) <u>12/</u>	141.5	158.7	169.9	N.R.
Effective marketing quota (mil. lb.)	1,186	1,112	979	N.R.
Effective national allotment (1,000 acres)	640	546	546	N.R.
<u>Burley Tobacco</u>				
Loan level (cents per lb.) <u>12/</u>	145.9	163.6	175.1	N.R.
Effective marketing quota (mil. lb.)	769	869	789	N.R.
<u>Sugar</u>				
Loan level for raw cane (cents per lb.)	--	--	2/17.00	N.R.
Loan level for refined beet (cents per lb.)	--	--	20.15	N.R.

See next page for footnotes.

Continued--

Footnotes--Continued

Note: Only changes in commodity program details from those presented in the May issue of PRN are listed in this table.

N.R. = not released.

1/ Under the Agricultural Adjustment Act of 1980, producers who did not stay within their "normal crop acreage" received lower target prices: \$3.08 for wheat, \$2.05 for corn, \$2.45 for sorghum, and \$2.29 for barley.

2/ Minimum allowed by law.

3/ Preliminary announcement made on July 14.

4/ The release level for wheat is 140 percent of the loan level. Farmers with contracts specifying 150 percent of the loan level per the January 1980 announcement, may have used a release level of \$4.50 per bushel for wheat in 1980 and may have used a level of \$4.80 in 1981, or converted their contracts to the 140 percent provision.

5/ The release level for wheat entered into the reserve after July 23, 1981, was set at \$4.65 per bushel.

6/ The call level for wheat is 175 percent of the loan level. Farmers with contracts specifying 185 percent of the loan level, per the January 1980 announcement, may have used a call level of \$5.55 per bushel for wheat in 1980 and may have used a level of \$5.92 in 1981, or converted their contracts to the 175 percent provision.

7/ On July 24, 1981, the Secretary stated the call level trigger would be used only under an "extreme emergency." This effectively negated call level provisions.

8/ Not necessary when an acreage reduction program is in effect.

9/ Feed grains entered into the reserve after October 6, 1981, had the following release levels: corn--\$3.15 per bushel; barley--\$2.55 per bushel; and sorghum--\$3.00 per bushel.

10/ The call level for corn is 145 percent of the loan level. Farmers with contracts specifying 140 percent of the loan level, as per the pre-January 1980 announcement, may have used a call level of \$3.15 per bushel of corn in 1980 and may have used a level of \$3.36 in 1981 or converted their contracts to the 145 percent provision.

11/ There are two established bases for the 1982 and 1983 acreage reduction programs for feed grains: one for corn and sorghum; the other for barley and oats.

12/ Determined by statutory formula.

POLICY THROUGH LEGISLATION

A number of Congressional initiatives affecting the agricultural sector have been enacted since May. A few of these new laws are highlighted below.

1982 Budget Act

The Omnibus Budget Reconciliation Act of 1982 (PL 97-253, signed on September 8) alters various programs operated by the Federal Government. Title I of this Act changes some of the commodity and food stamp program provisions administered by the Department of Agriculture. Most of the commodity provisions changed by this Act were part of the Agriculture and Food Act of 1981.

Dairy.--Sets the minimum dairy price support level at \$13.10 per hundredweight through fiscal year 1984. Allows the Secretary of Agriculture to reduce the effective returns to producers if over-production continues. In addition, authority is granted to donate dairy products overseas.

Production Controls.--Mandates voluntary reduced acreage programs, including paid diversion, for the 1983 crops of wheat, feedgrains, and rice. Such programs were discretionary under the 1981 Act.

Producer Payments.--Mandates advance deficiency payments for the 1982 crops of wheat, feed grains, upland cotton, and rice. Mandates advance deficiency payments for any of the 1983 crops listed above, if a reduced acreage program is established. In addition, advance diversion payments are required for the 1983 crops of wheat, feed grains and rice.

Loan Rate.--For crop year 1983, the minimum loan rate for wheat is set at \$3.65 per bushel and for corn at \$2.65 per bushel.

Exports.--Requires that between \$175 million and \$190 million be spent for agricultural exports in each of the next 3 fiscal years.

Food Stamps.--Includes alterations in the adjustment formula for the Thrifty Food Plan, establishment of penalties for States that do not reduce error rates to acceptable levels, and authorization for the program to continue through fiscal year 1985.

Table 2--Comparisons of 1983 Crop Support Levels Under the 1982 Budget Act and the 1981 Farm Bill*

Program	1981 Farm Bill	1982 Budget Act
Minimum loan levels		
Wheat (\$/bu.)	3.55	3.65
Corn (\$/bu.)	2.55	2.65
Dairy price support (\$/cwt., minimums)	13.25	13.10

*Single copies of Agriculture and Food Provisions of the Omnibus Budget Reconciliation Act of 1982 are available from Richard Rizzi, ERS/NED, Room 120, GHI Bldg., 500 12th St., SW, Washington, DC 20250.

Turkey Inspection

On June 30, the President signed into law a bill which increases from 5,000 to 10,000 the number of turkeys which

can be slaughtered and processed annually in small plants without requiring bird-by-bird Federal inspection (PL 97-206). This law puts these plants on the same footing as small chicken plants.

Tobacco Program Changes

The No Net Cost Tobacco Program Act of 1982 (PL 97-218) was signed into law on July 20, 1982. This Act requires tobacco growers to establish a special fund through their cooperative tobacco marketing associations to repay the Federal Government for any losses resulting from loans made under the price support program (excluding administrative expenses). In addition, the Secretary is now authorized to reduce the support rate for any tobacco grade found to be in surplus, but the reduction cannot lower the weighted-average support rate for all official grades of any type of tobacco below 65 percent of what the rate would have been without the reduction.

For the first time, the sale of flue-cured quotas or Federal allotments within the same county, regardless of whether the land is also sold, will be allowed. Finally, PL 97-218 requires institutional and corporate owners of quotas and allotments to sell such rights to active tobacco producers or to individuals who certify that they intend to become active tobacco farmers within the same county.

Export Trading

On October 8, the Export Trading Company Act (PL 97-290) was signed into law. This Act is designed to increase U.S. exports by forming export trading companies to serve as export intermediaries for U.S. companies. Banks will be allowed to take limited ownership interest in an export trading company and such companies will be allowed to apply for an antitrust certification preclearance. This will give these companies greater assurance that their activities will not involve antitrust action. Many small- and medium-size companies, including agricultural concerns, which do not have the resources to enter foreign markets are expected to be helped by PL 97-290.

Reclamation Law Changes

The Reclamation Reform Act of 1982 was signed into law on October 12, as part of a bill covering various aspects of water law (PL 97-293). The major impact of the Reclamation Reform title is to expand the number of acres in a landholding eligible for free water from Federal reclamation projects from 160 to 960 acres. To be eligible for free water on the full 960 acres, the recipient must be an individual or a corporation with 25 or fewer shareholders. Corporations with more than 25 shareholders will be eligible to receive reclamation water on up to 640 acres, but must pay full cost for all of the acreage if such water was not being received on or before October 1, 1982. Such corporations will not have to pay full cost for reclamation water on 320 acres if such water was being received before October 1, 1982. Also, the requirement that farmers must live on irrigated farms to be eligible for Federal reclamation water was eliminated.

PACA Changes

On October 18, the President signed into law a measure (PL 97-352) formalizing existing Departmental practices utilized under the Perishable Agricultural Commodities Act (PACA). These practices involve the imposition of monetary penalties on fruit and vegetable dealers and brokers for certain misbranding violations if they are not repeated or flagrant. In addition, U.S. residents serving as signees for non-residents must post bond before pursuing a claim over perishable farm products.

Surplus Grain Disposal

The Surplus Agricultural Commodities Disposal Act of 1982 (PL 97-358) was signed into law on October 21, 1982. This Act grants CCC authority to process its stocks of agricultural commodities into liquid fuel and commodity byproducts. Such fuels will be made available to Federal agencies for current use or to be stored for emergency use. In addition, CCC may sell such fuels in commercial markets. The price for the fuels will be set by the Secretary, but it may not be at a level which will disrupt the commercial market prices for liquid fuels derived from agricultural products.

POLICY THROUGH ADMINISTRATION

Grain and Cotton Programs

1982 Acreage Reduction.--On July 14, the Department established a 1983 wheat program, which included a 20 percent acreage reduction and advance deficiency payments. This program was scheduled to begin September 7 for winter wheat producers. In anticipation of Presidential action on the 1982 Budget Act (see Policy Through Legislation), the Department, on August 27, altered the 1983 wheat program and delayed the start of the sign-up period. The new wheat program included a combination 15 percent acreage reduction and a 5 percent paid land diversion program, as specified by the 1982 Budget Act.

On September 23, the Department announced provisions for the 1983 feed grains program. As with the wheat program, a combination acreage reduction and paid land diversion was offered to feed grain producers. However, both the acreage reduction and paid land diversion levels were set at 10 percent. (The land diversion level is 5 percent higher than specified by the 1982 Budget Act.) The sign-up period began on October 1 and lasts through March 31 for the feed grains and wheat programs.

Producers must limit the acreage planted to the specified crops to no more than 80 percent of the farm base to be eligible for wheat and feed grain loans, purchases, payments, and the reserve program. The base for the 1983 program is the same as that for the 1982 program. Once again for feed grains, two bases will be used, one for corn and sorghum, the other for barley and oats. Producers must devote to conservation use an acreage equal to both the acreage reduction

and land diversion requirements. Land designated for conservation use must have been devoted to row crops or small grains in two of the last three crop years, with two exceptions. On summer fallow farms the cropping requirement is for only one of the previous two years. The other exception covers crop land which met 1982 eligibility requirements for conservation use and was devoted to a permanent conservation practice. If the conservation practice is maintained, such acreage is eligible as conservation use acreage through the 1985 crop year and the practices are eligible for cost-share payments under the Agricultural Conservation Program. In any case, land used for conservation use acreage in 1982 will be regarded as having been cropped to meet the requirements. In addition, no mechanical harvesting will be authorized and grazing will not be permitted during the six principal growing months on the conservation use acreage. There will also be no cross compliance or offsetting compliance requirements.

On September 27, the Department announced provisions for the 1983 upland cotton program. Included were a 20-percent acreage reduction program and a voluntary 5-percent paid land diversion program. (The 1982 Budget Act did not include any provisions to reduce upland cotton acreage for the 1983 crop.) Producers must participate only in the acreage reduction program to be eligible for loans, purchases and payments. The base for the 1983 upland cotton program will be the same as the 1982 base for farmers who participated in the 1982 program. For those farmers not participating in the 1982 program, the 1983 acreage base will be the average of the acreage planted to upland cotton in 1981 and 1982. Producers must participate in the acreage reduction program to be eligible to participate in the paid land diversion program. Each farmer will select how much additional land to allocate to the paid diversion, with 5 percent being the maximum level. All other program aspects will be the same as announced for wheat and feed grains.

Diversion Payments.--When the provisions for paid land diversion were announced for the 1983 wheat, feed grains, and upland cotton program, diversion payment rates were also established. In addition, the Department announced that producers would be eligible to request advance diversion payments (as per the 1982 Budget Act) when they signed up for the acreage reduction/paid land diversion programs at a rate of 50 percent of the total payment. The diversion payment rates were established at \$2.70 per bushel for wheat (\$1.35/bu. advance); \$1.50 per bushel for corn and sorghum (75¢/bu. advance); \$1.00 per bushel for barley (50¢/bu. advance); 75¢ per bushel for oats (32.5¢/bu. advance); and 25¢ per pound for cotton (12.5¢/lb. advance). In all cases, the diversion payment will be calculated by multiplying the payment rate times the farm program yield times the number of acres diverted. Any producer who receives an advance payment and then does not comply with the program requirements will have to refund the advance and pay an interest charge equal to 5 percentage points above

the rate of interest in effect for commodity loans on the date of the advance.

Deficiency Payments.--The 1982 Budget Act also required advance deficiency payments for specified 1982 and 1983 commodities. On September 23, the Department announced that as soon as possible after December 1, 1982, eligible wheat and barley producers will receive full deficiency payments for their 1982 crops, while eligible corn, grain sorghum, rice, and upland cotton producers would receive 70 percent of their projected 1982 crop deficiency payments. (No deficiency payments are anticipated for the 1982 crop of oats.) The remainder of the 1982 crop deficiency payments are scheduled to be made to cotton and rice farmers in early February and after April 1 to corn and grain sorghum farmers.

In addition, in September the Department announced that a 50 percent advance deficiency payment (the maximum allowed) would be available to producers for the 1983 crops of wheat, feed grains (except for oats, on which no 1983 deficiency payments are projected), and upland cotton. As with diversion payments, producers may request advance deficiency payments when they sign-up for the acreage reduction programs. Any producer failing to comply with program requirements will have to refund the advance and pay the same interest penalty as for advance diversion payments. Projected 1983 deficiency payment rates are 65¢ per bushel for wheat (32.5¢/bu. advance); 21¢ per bushel for sorghum (10.5¢/bu. advance); 15¢ per bushel for barley (7.5¢/bu. advance); and 12.8¢ per pound for upland cotton (6.4¢/lb. advance). Deficiency payments are determined by multiplying the payment rate times the farm program acreage times the farm program yield. The payment rate equals the difference between the target price and the higher of the national average loan rate or the five-month (calendar year for upland cotton) weighted average market price received by farmers.

Farmer-Owned Reserve.--On July 28, the Department extended to 60 days the time farmers have to rotate corn and grain sorghum in the farmer-owned reserve. Prior to this announcement, farmers who needed to remove old-crop reserve grain to maintain grain quality only had 30 days to replace it with new crop. This action was taken because of abnormally wet weather experienced during the harvest of 1981 and the humidity and heat of 1982.

On August 27, the Department announced new rotation provisions for 1983 wheat and feed grains placed into the reserve. Producers will only have 15 days to replace any 1983-crop grain going out of condition. The replacement grain can be either grain the producer has on hand, grain bought by the farmer, or grain from the farmer's new crop.

The Department opened the reserve to immediate entry of 1981 and 1982 crops of oats on August 2. This announcement gave producers with 1981 crop oats under the CCC loan the option

of placing their oats into the reserve and receiving a 7-cent-per-bushel increase in the loan rate and a storage payment of 20 cents per bushel in advance. Producers with 1982 crop oats are also eligible for the storage payment and a higher loan rate (see table 1), if they place their grain into the reserve.

Storage Actions.--On May 28, the Department offered to enter into additional extended storage space agreements, for up to 75 million bushels, with grain elevator operators and warehousemen. By May 14, such agreements had been signed with approved grain elevator operators and warehousemen in 21 States for 101 million bushels of storage space. Any new agreements are limited to two years. The Department was willing to enter into agreements with warehouse operators who were constructing new facilities or renovating existing structures, in addition to operators with available approved space, as long as operators executed a uniform grain storage agreement when the space was ready for storage.

On July 1, the Commodity Credit Corporation (CCC) began requiring grain and rice warehouse operators already approved or who sought approval under the uniform grain or rice agreements to pay annual fees ranging between \$250 and \$1,250, depending on facility size, to reduce Government examination and administrative outlays. Two classes of operators were exempted from these fees: those with uniform storage agreements and licensed under the U.S. Warehouse Act, and those having such agreements in any of the 10 States which have Federal/State cooperative agreements. (The former were exempted since they already were required to pay such fees to another agency within the Department, while the latter, non-federally licensed warehouses are examined by State governments, with CCC paying half of the direct costs.)

On July 1, the Department also took action to give farmers and others more protection when they store commodities in warehouses. All grain and rice warehouse operators licensed under the U.S. Warehouse Act had their minimum net assets requirement increased from \$10,000 to \$25,000. This requirement is now calculated at 20 cents per bushel of the total licensed capacity of the facility, instead of on the amount actually stored. If a warehouse operator does not meet any required total net asset level above \$25,000, the requirement may be met by an identical increase in the operator's bond. In addition, the licensed warehouse operators are required to furnish the Department specified documentation all of which must have been reviewed by an independent accountant. Warehouse operators who contract with CCC to store grain, rice, and seed must also comply with all of the above requirements. These warehouse operators will no longer face a ceiling on net worth requirements and will be able to use a standby irrevocable letter of credit as an acceptable substitute security for net worth deficiencies.

On August 26, the Department announced emergency measures to help ease potential grain storage space shortages. Included was a provision to allow, from the harvest through March 1, 1983, warehousemen, approved under the Uniform Grain Storage Agreement or licensed under the U.S. Warehouse Act, to submit proposals to store CCC-owned grain in non-approved space. Each proposal will be individually reviewed by the Department. The warehouse operator remains responsible for quantity and quality. In addition, approval of State licensing authority prior to use of non-approved space will be required in any State that has mandatory State licensing.

Cotton Program Actions.--On July 1, the Department announced it would start paying warehouse operators accrued storage and handling charges on cotton under extended CCC loans. These payments will be made at the end of the original 10-month loan period, if such loans are extended, and at the end of each extension, if a further extension is authorized. The warehouse charges will be added to the producer's loan amount, but no interest payments will be required on these charges. This action was taken to reduce cotton reconcentrations (movements between warehouses) and lower CCC outlays and the number of loan forfeitures caused by increases in loan redemption value, brought about through the addition of the reconcentration costs.

On July 16, the Department increased its cotton classing fees from 60 to 67 cents per sample. A 5 percent fee increase for classification reviews and to rewrite classification memoranda was also announced.

Producers were given the option of extending their 1981 crop Extra-Long Staple cotton loans by 8 months on July 23. The interest rate for such extensions was not immediately changed. However, all interest rates for 1981 crop loans will be subject to alteration on January 1.

Disaster Payments.--The Department authorized disaster payments for 76 counties in parts of Texas, New Mexico, and Oklahoma on July 15. The action was taken because of severe crop damage caused by hail, heavy rainfall, wind and cold weather during the spring and early summer. The disaster payments were made available to eligible cotton, wheat, and feed grain farmers and was in addition to Federal Crop Insurance Corporation (FCIC) benefits. Emergency conservation funds to meet erosion and soil deterioration problems and FmHA emergency disaster loans were also made available. The disaster payments were set as follows: 20.5 cents per pound on upland cotton for losses in excess of 25 percent of the crop; \$1.75 per bushel on wheat, percent of the crop, 15 cents per bushel (increased to \$1.17/bu. on August 23) for corn, 18 cents per bushel (later increased to \$1.13/bu.) for grain sorghum, and 15 cents per bushel (later increased to \$1.13/bu.) for barley on losses in excess of 40 percent of the crop.

Crop Insurance.--On October 22, FCIC announced a change that allows high production farmers to receive higher insurance coverage without paying increased premiums. The program is available to producers who plant corn, cotton, grain sorghum, rice, soybeans, wheat, and barley in the spring of 1983. Under the new system, farmers will provide satisfactory acreage and production records for at least the 3 most recent years a crop was grown out of a 10-year period. However, instead of an area-average yield being used for years where no records exist, a producer yield index will be developed. This will be done by comparing the actual production records for the 3 most recent years with county yield averages. Once the index is calculated it will be applied to Government county yield averages for the missing years. In addition, for producers who feed their crops to livestock or poultry and, therefore, have no records to qualify for the above method, a modified plan will be used. For these producers actual records for only one year plus records certified by ASCS for the other two years will be used.

Oilseeds and
Tobacco

Soybean Loan Extension.--On August 14, the Department granted soybean producers the option of extending their 1981 crop loans for an extra 6 months. Any loan that was extended did not have an immediate increase in the interest rate. Most of these loans had been scheduled to mature during August, September, or October.

Soybean County Loan Rates.--On September 16, basic county loan and purchase rates for 1982 crop soybeans were issued. Because of changes in prices received, trends in production, and other factors the loan rates in North Carolina and West Virginia were increased by 2 cents per bushel above the national loan level (see table 1); increased by 1 cent per bushel in South Carolina, Tennessee and Virginia; and in four Missouri counties bordering Arkansas the rates were increased 1 to 2 cents per bushel. No changes were made in the schedule of premiums and discounts. The county loan rates are based on soybeans grading No. 2.

Changes in Peanut Program Rules.--Since May 1982, the Department has issued two sets of rules governing the peanut program. The first set was issued on June 24 and applies to the 1982 through 1985 crops. Under these regulations, producers are allowed to transfer additional peanut contracts to other producers, if the farm where the peanuts were to be produced is sold or reconstituted after April 15 (that being the last day for additional peanut contracting). Producers also are able to establish eligibility for immediate buyback of peanuts when they apply for marketing cards (such cards will be stamped "Eligible for buyback").

In addition, liquidated damages assessed by CCC to growers and handlers for improper handling of segregation 3 peanuts and for exported peanuts re-entering the U.S. have increased. These damages will now be based on the difference between

the national price support level for quota and additional peanuts (for the 1982 crop this translates to \$350 per short ton).

Finally, CCC will require physical supervision by area marketing associations of all phases of contract additional peanut handling. The non-physical option is no longer available. Producers will still be able to transfer segregation 2 and 3 loan peanuts to quota loans if their farm quota has not been marketed.

The second set of rules was released September 24 and governs peanut marketing penalties. A penalty of 38.5 cents per pound (140 percent of the loan level) will be assessed on peanuts marketed for domestic edible use in excess of a farm's effective poundage quota. In addition, any producer who falsely identifies peanuts, fails to certify planted acreage, or fails to account for the disposition of peanuts produced will be subject to penalties. The penalty for inaccurate certification is based on the margin of error in the certification and is assessed against a farm's total production. However, certification and over-marketing penalties may be reduced if the violation was unintentional. Both sets of rules were issued on an interim basis and implement many of the peanut requirements found in the 1981 Farm Bill.

1982 Peanut Support Levels.--On July 29, the Department issued 1982 crop peanut price support levels by type, quality, and location. All differentials are based on the average support level of \$550 per short ton. The 1982 levels for quota peanuts are as follows:

<u>Type</u>	<u>\$ per short ton</u>
Virginias	544.39
Runners	553.82
Spanish	535.42
Valencias (from the Southwest suitable for cleaning and roasting)	544.39
Other valencias	535.43

The schedule of premiums and discounts remained the same as for the 1981 crop as did the quality and location adjustments. The actual support level will depend on the percent of various sizes of kernels in each ton of nuts. In calculating a support level for additional peanuts, a factor of 36.36 percent of the applicable loan rate should be used. (This level represents the ratio of the national support level for additional peanuts to that for quota peanuts.)

Flue-Cured Tobacco Support Level.--On June 8, the Department announced the 1982 crop flue-cured tobacco loan rates. The average support level had been set earlier in the year at \$1.759 a pound (approximately 10.8 percent of the 1981 level) and the rates for the various grades had been set accordingly,

ranging from \$1.17 to \$2.27 per pound. However, after passage of the 1982 Tobacco Act (see Policy Through Legislation) the Department, on July 21, lowered the 1982 flue-cured price support levels. The average support level was reduced to \$1.699, while the loan rates for the various grades were reduced by an average of 3.4 percent. The 1982 loan rates for the various grades now range from \$1.12 to \$2.21 per pound. These actions were taken after it was determined by the Secretary that certain grades of flue-cured tobacco were in excessive supply. As with the 1981 program, loan rates will be discounted 10 percent for any grade which contains more dirt or sand than normal. Any tobacco containing excessive sand or dirt will be graded No-G. No loans are available for grades No-G, P5L, P5F, N1L, N1XL, N1GL, N1XO, N1PO, N2, W, U, or scrap. Any marketing of these grades will be charged against the farm's quota.

The tobacco marketing association may now deduct one cent per pound from the advances paid to producers to help cover overhead costs. In addition, flue-cured tobacco producers must agree to contribute 3 cents per pound of tobacco marketed to a "no net cost tobacco fund" to be eligible for price supports. This fund ensures that the tobacco program will be operated at no net cost to taxpayers.

Excess Tobacco Poundage Carryover.--One feature of the 1982 tobacco legislation was the elimination of fall leasing for flue-cured tobacco. This program allowed producers to lease additional quota for their farms if their tobacco production exceeded 110 percent of the effective farm marketing quota. Without such a program, producers who experienced high levels of production would have to store unprocessed tobacco until the next marketing year. Such tobacco faces possibilities of insect infestation and quality deterioration.

On September 22, the Department instituted an excessive poundage carryover program for the 1982 crop of flue-cured tobacco to alleviate this problem. Under this program, producers have the option of making arrangements with the Flue-Cured Tobacco Cooperative Stabilization Corporation to process and store their excess tobacco. This tobacco will remain out of commercial trade until the 1983 marketing year. No 1982 crop carryover tobacco is eligible for loans or penalty-free marketing until the start of the 1983 marketing year.

Tobacco Certification.--On October 13, the Department announced an interim rule requiring producers to certify in writing that any tobacco delivered for price support had not been loaded, packed or arranged to conceal foreign material or tobacco of inferior grade, quality, or condition (commonly known as "nested tobacco"). The rule applies to all 1982 and subsequent crops of quota tobaccos, except for the 1982 crop of flue-cured since marketing of such tobacco was nearly completed when the rule was announced. Any producer found to have knowingly delivered nested tobacco will not be eligible for price support

for any marketed tobacco during the marketing year in which the violation occurred.

Burley Tobacco Support Level.--On November 9, the Department announced the schedule of loan rates for the 1982 crop of burley tobacco. The average support level had been set earlier in the year at \$1.813 per pound (approximately 10.8 percent of the 1981 level). However, an increase in the estimated size of the 1982 crop and a weakening in market demand resulted in a determination by the Secretary that certain burley grades were in excess supply. Therefore, under the authority of the 1982 Tobacco Act, the average support level was lowered to \$1.751 per pound. The loan rates for the various grades range from \$1.16 to \$1.95 per pound. No loans are available for grades U, W, No-G, or scrap. As with the flue-cured program, the tobacco marketing associations may deduct one cent per pound from advances paid to producers to help cover overhead expenses. In addition, burley tobacco producers must agree to contribute one cent per pound of tobacco marketed to a "no net cost tobacco fund" to be eligible for price supports.

Sugar

Sugar Price Supports.--On May 27, the Department altered some features of its sugar purchase program. The basic purchase price for refined beet sugar was increased from 19.16 to 19.70 cents per pound. It was also announced that processors would not have to pay specific minimum amounts to producers, but any proceeds processors received from the sale of sugar to CCC would have to be accounted for and settled with producers in accordance with agreements between the two parties for sharing proceeds. The quantity of sugar a processor may sell to CCC was limited to the minimum amount of sugar the processor had on hand from April 1 through October 30, 1982. However, the regulation that only sugar processed between December 22, 1981 and March 31, 1982, is eligible remained in effect. Finally, any processor who filed a purchase agreement to sell sugar to CCC had to provide CCC information on freight and shipping costs so actual location differentials could be developed.

On October 1, the Department announced provisions for the nonrecourse sugar loan program. Six-month nonrecourse loans will be available to all eligible sugar processors. To be eligible for the loan program, processors must agree to pay any producer, who delivers sugarbeets or sugar cane to the processor, at least the minimum level of support for the region. The national average support rates were set at 17 cents per pound for raw cane sugar and 20.15 cents per pound for refined beet sugar. Only domestically grown sugar cane and beets processed between April 1, 1982, and June 30, 1983, will be eligible for this program. All loans will mature by September 30, 1983, and carry the same interest rate other CCC loans are assessed during the month of disbursement. Interest will not be charged to loan recipients who forfeit their crop to CCC.

Sugar Import Quotas.--On June 15, the Department set the sugar import quota for the July through September quarter at 420,000 short tons. This level represented the estimated import needs after analyzing domestic consumption, production and stocks. No unused allocation of the quota in effect from May 11 through June 30 (220,000 short tons) was allowed to be carried into the new quarter (only 81.5 percent of that quota was filled).

On August 5, the Department altered the sugar import quota program by changing from a quarterly system to an annual quota for fiscal year 1983. In addition, the Department established a certificate of eligibility system in which foreign countries with a sugar quota could receive a certificate, if they choose to participate. The certificate would then be issued to shippers or consignees of sugar to the U.S. If a country decides to use the system, no sugar from the nation can enter the U.S. for consumption or be withdrawn from U.S. warehouses for consumption without certification. Finally, all countries, including those in the "other specified countries and areas" category were given specific quota amounts. All of these changes became effective on October 1, except for the new certificate system, which went into effect on August 11. (As of September 30, 28 countries representing 94.1 percent of the global quota allocation had agreed to participate in the certificate system.)

Under the new quota system, the Department announced an import level of 2.8 million short tons for fiscal year 1983, on September 15. This level is down from the 3.3 million short tons estimate of June 15. The reduction in import needs was brought about by reduced consumption of products containing sugar, a larger crop than expected, and larger than anticipated carry-in stocks. The remaining six nations in the "other specified countries and areas" category were each assigned quotas of 16,500 short tons.

Sugar Import Fees.--On July 1, the Department reduced the import fees for raw sugar from 4.0703 to 3.4193 cents per pound and from 5.0703 to 4.4193 cents per pound for refined sugar. This quarterly action was taken as domestic sugar prices strengthened as a result of the sugar import quota system. The import fees for sugar were further reduced on July 21, to 2.4193 cents per pound for raw sugar and 3.4193 cents per pound for refined sugar. This reduction was caused by an alteration in the adjustment mechanism for the sugar import fee system. Prior to this change, the import fee was adjusted, if needed, at the beginning of each calendar quarter (as per the July 1 adjustment) and whenever the 10-day average world price for sugar moved of more than 1 cent from the quarter base. Now, the import fee is adjusted at the beginning of each calendar quarter and whenever the 10-day average price of the domestic sugar spot market, quoted by the New York Coffee, Sugar, and Cocoa Exchange, exceeds the market stabilization price by more than 1 cent. The market stabilization price had been set at 19.88 cents per pound on May 5. From July 1 through July 15

(the base period), the domestic spot price averaged 21.77 cents per pound, thereby causing the July 21 adjustment.

Since the domestic spot price averaged 22.785 cents per pound, raw value, during the base period of July 22 through August 4 (well above the trigger level of 20.88 cents per pound), the import fees for raw and refined sugar were further reduced to 1.4193 and 2.4193 cents per pound, respectively, on August 10. On August 28, the Department reduced the import fees for a third time since the July 1 quarterly adjustment. The fees were set at 0.4193 and 1.4193 cents per pound for raw and refined sugar, respectively. This adjustment was triggered because the average domestic spot price for the August 11 through August 24 base period was 22.383 cents per pound.

On September 1, the Department increased the market stabilization price to 20.73 cents per pound for fiscal year 1983. This price represents the price support loan rate (17 cents per pound) plus transportation expenses of 2.66 cents, interest costs of 0.87 cents and a market incentive factor of .2 cents per pound. However, this increase in the market stabilization cost was not high enough to prevent a reduction of import quotas to the minimum level for the quarter beginning October 1. On that date, the import fee for raw sugar was reduced to zero and for refined sugar to one cent per pound. This action was taken because the average domestic spot price, for the August 20 through September 17 base period, of 21.0017 cents per pound was above the market stabilization price of 20.73 cents. These fees remain in effect through December unless downward changes in spot market prices average more than 1 cent over 10 consecutive market days, thereby forcing an import fee increase.

Fruits and Vegetables

On May 19, the Department issued amendments to regulations under the Perishable Agricultural Commodities Act (PACA). The new regulations clarify the practice that informal procedures for resolving instances of misrepresentation of fruits and vegetables are not limited to the first seven violations. (These procedures range from a warning letter for the first 2 violations to penalties of up to \$2,000 for additional violations.) The amendments retain the requirement that records of misrepresentation violations be destroyed if no further violations occur over a 24-month period. However, instead of retaining such records indefinitely if violations occur periodically, all such records will be destroyed if more than 36 months old, unless they have been included in a formal disciplinary action. Finally, the licensing exemption for retailers and frozen food brokers was increased from \$200,000 to \$230,000, while the minimum level of monetary damages needed for an automatic granting of an oral hearing was increased from \$3,000 to \$15,000.

On September 9, the Department instituted voluntary grade standards for kiwifruit for the first time. The grades available are U.S. Fancy, U.S. No. 1, and U.S. No. 2. Kiwifruit

will receive lower grades for such things as bruises, discoloration, growth cracks, decay and internal breakdown.

On October 3, the Department increased its voluntary commercial inspection fees at destination markets for fresh fruits, vegetables, nuts and related products by \$3.00 to \$4.00 depending on the lot size and type of inspection. The hourly rate increased from \$19.00 to \$21.00.

The grade standards for grapefruit juice were revised on October 15. A minimum soluble solids content requirement was established for sweetened or unsweetened grapefruit juice, grapefruit juice from concentrate, and dehydrated grapefruit juice. In addition, the new standards also require that sweetened frozen concentrate contain at least 38 percent soluble solids before sweeteners are added. Finally, sweetener use will not be permitted in concentrated grapefruit juice for manufacturing, so that this product can be used in both sweetened and unsweetened juice concentrate.

On November 8, for the first time since 1972 the Department increased the fee charged for applications for plant variety protection from \$750 to \$1500. This action was taken to cover more of the program's administrative costs.

Livestock Programs

Meat Inspection and Grading.--In April 1979, the Department established national uniform inspection rates for young chickens. An interim rule was issued which eliminated most of the time inspectors had spent positioning poultry for inspection by allowing the use of mirrors. The maximum lane speed on production lines with 3 inspectors using the new procedure was set at 70 birds per minute. The Department made this rule permanent on May 28, 1982.

On October 17, the Department altered its lamb grade standards for the first time since 1960. The changes include: allowing carcasses with only one breakjoint (the point where the foot is removed during slaughter of young lambs) to be classed as lamb if other maturity characteristics are typical of lamb; dropping feathering--streaks of fat between the ribs--as a quality factor; and now basing quality on flank fat streaking (fat within or on the flank muscle) in relation to maturity, with a minimum of firmness for each grade.

The Department increased some of its fees for meat and poultry inspection on October 17. The overtime rate for mandatory inspection increased from \$18.12 to \$19.40 per hour, while the hourly rate for laboratory work was raised from \$27.28 to \$31.00. In addition, the basic hourly inspection rate for voluntary inspection and certification services increased from \$14.64 to \$16.68.

On October 30, the Department finalized rules revising inspection procedures which set new staffing standards for inspectors in cattle slaughter plants and streamlined inspection procedures

for slaughtered swine. The new swine procedure places greater reliance on visual inspection, rather than examination of internal organs. As with the modified broiler procedure, mirrors are utilized for outside carcass observation. The cattle and hog inspection changes were initiated as interim emergency rules during the summer of 1981 to increase inspection efficiency and to meet budget limitations.

On November 1, the Department increased the rates charged to grade eggs and poultry. The charge for USDA supervision of grading was increased from \$.020 to \$.024 per case of shell eggs and from \$.00020 to \$.00024 per pound of poultry. The basic hourly rate charged for lot grading increased from \$18.96 to \$20.76. In addition, the overtime rate charged to plants for egg products inspection was increased from \$16.52 to \$16.56 per hour, while the holiday rate increased from \$13.08 to \$14.20 per hour. The charges for laboratory services also increased from \$22.76 to \$24.24 per hour, while the charge for individual laboratory tests increased about 7 percent. These rates were last altered on November 1, 1981.

On November 14, the Department eliminated grading fees charged for services on Federal legal holidays when no work is actually performed. This rule change mainly affects meatpackers and processors who use Federal meat grading and certification services on a part-time basis. When full-time graders are not needed at a location, 40-hour commitment agreements are arranged for grading and certification services. These agreements had required payment for 40 hours per week even if a Federal holiday took place during the week and the grader was not used.

Livestock Referendums.--During the latter part of August, wool producers voted to continue deductions from CCC incentive payments to finance a promotion program for wool. The new agreement affects payments made, under the National Wool Act, on wool and unshorn lambs that are marketed from 1982 through 1985. Deductions are 4 cents per pound, up from 2.5 cents, on shorn wool and 20 cents per cwt., up from 12.5 cents, on unshorn lambs. This wool and lamb promotion program has been approved by the necessary two-thirds majority in seven referendums held since 1954.

International Livestock Action.--Third and fourth quarter estimates of U.S. meat imports for 1982 were both below the level that would require restraints under the Meat Import Act of 1979. The July 2 estimate for the amount of beef and certain other meats to be imported in 1982 totaled 1.23 billion pounds, 75 million pounds below the trigger level of 1.3 billion pounds and slightly higher than the 1.22 billion pounds imported in 1981. The October 13, estimate was set at 1.295 billion pounds. This estimate and the need for no quota were based on Voluntary Restraint Agreements the Department negotiated with Australia and New Zealand and on an exchange of letters with Canada. This marks the third consecutive year that no meat import quotas have been imposed.

On May 19, the Department announced that livestock importers applying for quarantine space at the Department's import center at Key West, FL, could meet the required application deposit with a letter of credit. Earlier, only certified checks or money orders of \$1,000 per animal were accepted. In addition, the Department established a two-part inspection quarantine fee system. Importers must guarantee coverage of the expenses of testing cattle in the country of origin before movement to the port of embarkation quarantine facility. The second part of the system covering expenses at the pre-embarkation facility and during quarantine at Key West, will not be charged if the cattle do not qualify for entrance.

On June 3, New York became the ninth State approved to receive stallions imported from countries affected with contagious equine metritis (CEM). California became the sixth State approved to receive breeding-age mares from such countries on August 3. On November 4, Sweden became the 11th nation on which the U.S. imposes CEM horse import restrictions.

On August 19, the Department formally instituted new measures to ensure that rejected meat and poultry imports do not illegally enter U.S. commerce. The Department will no longer allow: application by USDA inspectors of "U.S. Inspected and Passed" on any product until Customs Service and USDA inspections are completed; subdivision of lots of refused-entry products into smaller lots for separate disposition; sale of refused-entry product, except under special circumstances; movement of refused-entry product from port to port without full written information on the product's disposition; and movement of any refused-entry product, except under security seals. Finally, owners or consignees of such products now have 45 days, rather than 30 days, to export or destroy it. The Secretary is authorized to take appropriate actions to destroy any rejected product on which the owners do not meet these requirements within the 45 days.

On September 2, the Department extended from 60 to 180 days the time period during which horses must be tested and found free of equine infectious anemia before being imported from Canada. The 180-day limit is the same time span Canada requires for testing horses that are imported from the U.S.

Starting on December 1, cattle imported from Ireland will have to undergo strengthened brucellosis testing, because of recent brucellosis outbreaks. Among the new requirements are provisions which mandate all cattle coming from Ireland to originate from herds that have annually tested negative for the last two years. Individual animals will also have to meet strict testing and quarantine requirements.

The fees for quarantining imported, personally-owned birds will be increased from \$80 to \$100 on January 1. The fee for handling two or more birds in a single isolation cage during quarantine will rise from \$100 to \$125. Pet birds are quarantined for 30 days, except for those imported from Canada for which no such restrictions apply.

Other Livestock Regulation Changes.--On June 29, the Department modified its composition and labeling requirements for mechanically-separated meat. The new name will be "mechanically separated (species, i.e., pork)," instead of "mechanically processed (species) product." The labels must list the presence of mechanically-separated meat in the ingredients statement; however, the presence will no longer have to appear in a qualifying phrase next to the name of the finished product. In addition, the labels of certain processed items must list the amount of calcium in one serving of the finished item, instead of including the statement "contains up to ____ % of powdered bone," as previously required. Finally, there will be two categories of the product, one containing up to 30 percent fat and no less than 14 percent protein and the second with no such content requirements. The second category can be used only in food in which total fat content is limited by other regulations, i.e., Italian sausage and bologna. In no case can more than 20 percent of a livestock or poultry product portion of a finished product be made up of the mechanically-separated product. Also, at least 98 percent of the bone particles can be no larger than .5 millimeters, with no single particle larger than .85 millimeters and the product cannot contain more than .75 percent calcium. The ingredient will not be allowed in baby, junior or toddler food, because of fluoride content and it cannot be used if it would alter the basic characteristic expected of meat food products; i.e., ground beef.

On September 20, the Department granted sausage makers more flexibility in making braunschwieger and liver sausages. Both sausages now may be made without pork and braunschwieger can now have beef fat included. Also, veal liver, in addition to beef and pork liver, can now be used to meet the minimum 30 percent liver content requirement. The changes were made to increase the types of sausage products available and to allow non-pork consumers to eat these sausages.

The Department began allowing the use of a swab test to detect antibiotic residues on all meat and poultry carcasses under Federal inspection on October 20. The swab test, previously used only on dairy carcasses, reveals within 18 hours whether there are antibiotic residues in carcasses. Previously, from one to two weeks was needed to complete laboratory tests. Carcasses with no signs of antibiotics can immediately be moved into commerce, while those with positive signs are further tested to determine if the levels are in violation. In September, the Department instituted a program through land-grant universities to help livestock and poultry producers obtain information and management techniques on how to use drugs and chemicals, yet avoid marketing animals with residues.

Beginning January 1, all garbage will have to be heat treated in licensed facilities before being fed to swine. The treatment consists of boiling food waste for at least 30 minutes. Food waste from ordinary household operations fed to swine on the

same premises is exempted. States may enforce more stringent regulations if they so choose.

Livestock Disease Eradication.--From October 25 to November 1, Canada required veterinary inspections of all horses entering Canada from the U.S. between Emerson, ND and the west coast. This action was taken because of the outbreak of vesicular stomatitis in 8 States--AZ, CO, ID, MT, NE, NM, UT and WY. This disease has many of the same symptoms of foot-and-mouth disease.

On June 21, Maryland became the 19th State and on July 29, Delaware became the 20th State to eradicate brucellosis in swine. On August 23, Utah became the 11th State to be classified as cattle brucellosis free, while Delaware became the 12th State on October 25.

Dairy Programs

On September 24, the Department announced the support price for manufacturing grade milk, with a milk fat content of 3.67 percent will remain at \$13.10 per cwt. for fiscal year 1983. In effect for two years, this was the minimum allowed under the 1982 Budget Act. The actual purchase prices for butter, nonfat dry milk and cheddar cheese were not altered.

Regulations were proposed on September 24 for collection of 50 cents per cwt. on the sale of milk marketed by dairy farmers, which is scheduled to begin on December 1. Proposed provisions include assignment of responsibility to make and submit deductions to the CCC by the person actually making payment to individual dairy farmers for their milk. Those who make the deductions will have to file a brief report on the milk volumes subject to the deductions. Payments to the CCC will be made at the time of final payments to producers each month. The deducted funds will be used by the CCC to offset part of the costs of the dairy program.

On August 17, the Department began allowing the use of dried whey and certain modified whey products in some meat products. The dried whey and whey products may be used as binders and thickeners in sausages, bockwurst, chili con carne, and beef and pork with barbeque sauce. The whey can make up 3.5 percent of sausages and bockwurst and up to 8 percent of the other processed products. This action had been proposed in 1976, but was delayed while the Food and Drug Administration determined if whey and its byproducts were safe. The determination was made in September 1981.

On October 8, the Department announced that it would begin accepting applications for government-owned butter, cheese, and nonfat dry milk to be donated to foreign governments and to public and private nonprofit humanitarian organizations to assist needy persons outside the U.S. The authority to provide such assistance is part of the 1982 Budget Act.

Natural Resources

On June 8, the Department authorized \$6 million for special agricultural conservation program projects during fiscal year 1982. The funds were to be used to help meet soil and water conservation needs and improve the quality of U.S. waters. County ASCS committees were authorized to share with farmers the cost for residual tillage and no-tillage systems under long-term agreements. The allocations for special projects was increased in 198 counties in 44 States by this action.

During fiscal year 1982, 8 States--AL, IA, KY, OH, OK, PA, WV, and WY--shared over \$13 million in supplemental Federal funds to help reclaim nonfederal land damaged by coal mining. This action financed 45 high priority reclamation projects that had to be carried over from the last fiscal year due to lack of funds. Each landowner may receive reclamation funds for up to 320 acres, with the government's share ranging from 25 to 100, percent depending on various factors. Each contract covers a 5- to 10-year period.

On October 1, the Department announced that 40 States and Puerto Rico would share \$99 million in national forest receipts interim payments. The figure represents 75 percent of the total amount of estimated receipts--\$132 million--due to the States for fiscal year 1982. For fiscal 1981, the States received \$228 million as their share of the receipts. By law, 25 percent of Forest Service revenues collected as fees for various land uses must be paid to the States where the national forests are located. This year's decline in revenues is due mainly to depressed timber markets. The remainder of the funds will be paid in early December after actual receipts are calculated.

Pest Control

Fruit Fly.--In spite of finding a fertile Mediterranean fruit fly in San Joaquin County, California in late June and in Los Angeles in mid-July, the Department gradually reduced the quarantine zone for medflies in California throughout the summer. On September 21, it was announced that the medfly had been eradicated from California. Japan had eased its restrictions on imports of California produce in May, by accepting USDA quarantine boundaries. This action allowed California produce from outside the quarantine zone to be shipped to Japan without treatment, while produce from within the zone continued to be banned.

Other Action.--On May 13, the Department doubled its funding for efforts to control gypsy moths in 1982. The contribution the Forest Service was scheduled to make was increased to \$3.6 million, representing 25 percent of the total cost of combating the pests in northeastern States.

The Department quarantined Puerto Rico on August 18 and increased quarantine areas in AL, GA, MS, and SC on September 17 to prevent the spread of imported fire ants. The quarantine restricts movements of soil, nursery stock with soil attached, grass sod,

hay, straw, and used mechanical equipment, unless such items are properly treated and inspected.

During the summer, 7 airports in the eastern U.S. were regulated to prevent departing planes from carrying Japanese beetles to uninfested areas. This action is taken when treatment of vegetation around an airport fails to reduce the number of Japanese beetles in the area. When under such regulations mechanical or chemical means must be utilized to keep beetles off of departing aircraft. In 1981, six airports were placed under regulations and in 1980 nine airports were regulated.

Finance

FmHA Loans.--On October 1 and November 1, the Department reduced FmHA interest rates due to the lower cost of money to the U.S. Treasury and reductions in the average yield for municipal bonds. The October action lowered the interest rate for farm operating loans from 14.25 to 13.25 percent and for long-term farm loans (i.e., farm ownership) from 13.25 to 13 percent. Interest rates for limited resource borrowers were lowered from 11.25 to 10.25 percent for operating loans and from 6.625 to 6.5 percent for farm ownership loans. The interest rate for the emergency loan program for borrowers who can obtain credit elsewhere was lowered from 17 to 16.25 percent for actual losses caused by disasters which occurred after October 1. Borrowers who cannot obtain credit elsewhere continued to be charged 8 percent. The interest rate for continued annual production loans for financing above actual disaster loss was lowered from 16 to 15.5 percent. FmHA also lowered the interest rates charged in its housing programs. The rate for loans for single family housing, rural rental housing, and housing sites dropped from 13.5 to 13.125 percent. (The interest rate for housing loans to above moderate-income borrowers who can afford HUD rates was lowered a full percentage point to 14 percent on September 20.) Finally, the interest rate for community facility and water and waste disposal loans declined from 11.625 to 10.625 percent. The rate for communities with moderately less than average means was lowered from 8.375 to 7.875 percent, while the rate for lower-income communities remained at 5 percent. The interest rate for small-scale biomass energy projects dropped from 13.25 percent to 13 percent.

The November 1 action affected many of the same rates. The interest rate for farm operating loans declined further to 11.5 percent, with the rate for borrowers with limited resources dropping to 8.5 percent. The interest rate for limited resource farm ownership loans declined further to 5.75 percent. The rate for natural disaster emergency loans was further lowered to 14.25 percent for those who can get credit elsewhere, while the interest rate for those who cannot obtain credit elsewhere to finance loans for production above actual disaster losses declined to 14 percent. The interest rate for single and multi-family housing loans declined further to 11.5 percent, except for those persons that can afford rates charged by HUD; interest for that group declined to 12.5 percent. Finally, the interest rate for economic emergency production loans declined from 13.25 to 11.5 percent, while the interest

rate for economic emergency real estate loans dropped from 13 to 11.5 percent.

Farm Storage Loan Program.--On July 14, the Department announced that it would resume approval of new applications for CCC farm storage facility loans. No application made since February 8 had been eligible for approval, because program regulations were under review. The review produced the following changes in requirements. The loans are limited to \$25,000 per farmer, down from \$50,000. The funds were to be used for building new storage structures or remodeling existing ones, but were no longer to be used to obtain electrical, handling, or drying equipment. Up to 70 percent of the eligible cost items were to be covered by the loan, down from 75 percent. All ineligible items which are integral parts of the facility are to be paid for in full before the loan is actually disbursed. The maximum term of the loan remained at 5 years, with one year's storage needs--based on one year's production of wheat, feed grains, or rice produced by farms participating in the acreage reduction program--determining eligibility. (The production of other crops such as soybeans and peanuts could not be considered.)

Producers that had a pending application for such loans were allowed to revise them to meet the new requirements. Actual loan disbursement did not begin until after October 1. On July 14, the Department allocated \$40 million for the farm storage facility loan program. This figure was increased to \$100 million on September 23.

On August 20, more changes were made to the storage facility loan program to allow greater participation. Instead of one year's production, funds were made available to build facilities capable of storing up to 2 year's production of eligible crops. These facilities could be in addition to any on-farm facilities currently used to store grain under loan in the farmer-owned reserve program. Although the maximum limit of such loans remained at \$25,000, farmers storing reserve grain on their farm with outstanding storage facility loans were allowed to carry an aggregate loan balance of as much as \$50,000. Eligibility for this clause will be determined on a case-by-case basis. In addition, soybean production was to be counted in determining storage needs as long as the farmer produced a crop eligible for the reserve program and participated in an acreage reduction program.

On November 12, the Department ceased consideration of applications for farm storage facility loans. This action was taken because the 1982 grain harvest was in its final stage and most of the funds had already been targeted. This action did not halt processing of applications already on file.

CCC Loan Rate.--The interest rate on CCC loans has fluctuated widely during the last six months. In May, the rate stood at 14.125 percent, it decreased to 13.625 percent for June

and 13.5 percent for July, but then increased to 14 percent for August. In September, the rate began to decline again, going to 12 percent and dropping to 11 percent for October and 9.75 percent for November.

Nutrition

School Lunch Action.--On July 1, the annual income limit for free meal eligibility (130 percent of the Federal poverty line) was increased by 10 percent, from \$10,999 to \$12,090 for a family of four. The eligibility level for reduced price meals (185 percent of the poverty line) was also increased from \$15,630 to \$17,210 for a family of four. These guidelines are adjusted each July to reflect changes in the cost of living and determine eligibility for free and low-cost meals through the national school lunch and breakfast programs, child care food, special milk and commodity school programs. (Alaska, Hawaii, and Guam have separate guidelines.)

In July, 97 school districts began a demonstration project to test alternatives to providing donated agricultural commodities to the national school lunch program. Thirty-four of the districts began receiving cash payments equal to the value of the commodities they would otherwise be entitled to under the current program (approximately 11.5 cents per meal), while 31 districts received letters of credit to purchase specific commodities from local sources. The other 32 districts remain in the current program as control sites. All of the districts must participate in the test for at least two years, while the Department determines the effects of these alternatives.

On July 24, the Department announced that beginning with the 1982-83 school year, parents must provide social security numbers on applications for free and reduced-price meals. Prior to this rule change only family size and income information was required. This change implements provisions mandated by the 1981 Budget Act to ensure only eligible children receive program benefits.

On August 13, the Department extended the authority to use optional lunch serving to elementary schools. Under this system, known as "offer versus serve", a 5 choice menu plan is developed from which children choose at least 3 of the 5 foods. Such systems have been required in high schools since 1975 and has been optional for junior high and middle school use since 1977.

Dairy Donations.--On May 29, the Department announced plans to distribute up to 50 million pounds of butter to needy persons. At the same time, it was announced that an additional 120 million pounds of cheese was available for distribution for the needy. A total of 220 million pounds of cheese has been made available for distribution since December 1981. Both of these commodities were obtained through the dairy price support program.

On July 6, the Department announced that in September it would begin to test the distribution of nonfat dry milk to needy families in FL, MN, and WA. The project would last for 3 months and have up to 11 million pounds (equal to 13.8 million gallons of fluid milk) available for distribution. As with the butter and cheese, the nonfat dry milk was obtained through the dairy price support program.

Food Stamp Changes.--On May 25, the Department announced that by October 1, 1983, all States must change their reporting and budgeting systems to retrospective accounting. Under this system, all households, except migrant farmer households, receive monthly benefits based on their income and other circumstances in a prior month. This replaces a "prospective" system which based benefits on anticipated future income. (Benefits for migrant farmers will continue to be determined on a prospective basis.) Monthly financial reports will be required of most families except for those households whose income fluctuates very little, such as an elderly or disabled household. Non-exempt households who fail to submit monthly income reports after notification, may have their food stamp benefits terminated. Exempt households will continue to report income changes when they occur. Supplemental or enhanced allotments will be available for newly applying households if the new system causes serious hardship. States may coordinate the food stamp system with similar Aid to Families with Dependent Children (AFDC) program reporting and budgeting systems.

On June 7, the Department began allowing States to keep 25 percent of the money recovered from people who received food stamp over-issuances through non-fraud recipient errors. States have been able to receive 50 percent of funds recovered from fraudulent over-issuances since January 1980.

As with the school lunch program, the Department increased the food stamp income eligibility guidelines by 10 percent to reflect cost-of-living changes on July 1. This raised mean monthly gross income limits for a family of four from \$916 to \$1,008. (Guidelines for Alaska and Hawaii are slightly higher.) On October 1, food stamp recipients received an 8 percent "cost-of-food" increase in their food stamp benefits. This increase reflects changes in the cost of food between October 1980 and June 1982. The allotment for a family of four with no income increased from \$233 to \$253 a month for all areas except Alaska, Hawaii, Guam, and the Virgin Islands.

The Department began seeking contract proposals from State welfare departments to find jobs for food stamp work registrants on August 24. This is part of the program to transfer such functions from the U.S. Department of Labor to the State agencies assigned to administer the food stamp program. The allocation for job search contracts was set at \$30 million. State agencies may perform the actual service themselves or contract out to other governmental agencies or private firms.

Final workfare regulations were announced on October 8. State and local jurisdictions have the option of using workfare as part of their food stamp program. The basic provisions are that all able-bodied food stamp recipients from 18 to 60 years old can be required to perform public service work for food stamp benefits. Actual eligibility is determined on a case-by-case basis, but if an eligible recipient refuses, without good cause, to participate the entire household will lose food stamp benefits for two months. The value of the work will be set at a rate equal to the Federal or State minimum wage, whichever is higher, with a maximum work time limit of 30 hours per week. States and local jurisdictions may combine food stamp workfare with similar programs already in existence. The Department will fund 50 percent of the administrative costs of workfare, including participant reimbursement of up to \$25 per month for work-related expenses such as transportation.

WIC Reallocation.--On September 10, \$9.8 million was reallocated among the States for the special supplemental food program for women, infants and children (WIC). At the beginning of each fiscal year, the funding available for WIC is allocated to the various State and local agencies which operate WIC programs. For fiscal year 1982, this amount totaled \$960 million. However, it is difficult to estimate exactly how much money will be needed during a fiscal year by each jurisdiction. Therefore, when necessary, the Department reallocates funds from States that are expected to have unspent funds at the end of the fiscal year to States that are facing deficits. The Department had planned to make its second reallocation for fiscal 1982 in October, but an August 27 court ruling forced earlier action.

Feedings Sites for Low-Income Elderly.--Two cities, Detroit and Des Moines, are being used to test food programs for low-income elderly persons. These projects test various food packages and delivery systems to provide supplemental food to participants, with the focus of the program on providing food to the homebound. To be eligible, a person must be 60 years of age or older and qualify for some type of public assistance. The projects will operate for one year, with total funding of \$480,000.

International Actions

US-USSR Agreement.--In early August, President Reagan offered to extend the Long-Term Sales Agreement (LTA) with the USSR for one year beginning October 1. On August 20, it was announced that the Soviet Union had agreed to the offer. This was the second one-year extension to the 5-year agreement, which began in October 1976. Under its terms, the Soviets must purchase 6 million metric tons of grain, and they may purchase up to 8 million metric tons without further consultations with the United States.

On October 15, two weeks prior to the regular semi-annual US-USSR consultation, the President announced that the Soviet Union would be offered up to 23 million metric tons of grain during the current LTA year. (This is 15 million tons above

the 8 million metric tons available without consultations.) In addition, the President announced that any of the grain or other agricultural commodities contracted for by the USSR before the end of November would be guaranteed delivery, if shipped within 180 days from the date of the contract.

Export Credit.--The Department has initiated several actions since mid-July to strengthen its CCC export credit program. On July 14, it was announced that the financing of the export credit guarantee (GSM-102) program would be increased from \$2.5 billion to \$2.8 billion for fiscal year 1983.

On September 17, the Department authorized \$1 billion in export credit guarantees for Mexico. These guarantees were made under GSM-102 and provide for 3 year coverage. All sales must be registered and shipments made by September 30, 1983. This particular action increased the level of funding for the GSM-102 program in fiscal 1983 to \$3.8 billion.

Under the GSM-102 program, the U.S. Government guarantees participating banks that it will cover any principal up to a maximum of 98 percent, and interest charges of up to 8 percent on the guaranteed value, that a foreign government fails to repay. U.S. exporters pay a fee for the guarantee to the CCC before export is completed.

On October 12, CCC increased its principal coverage on the \$1 billion guarantee to Mexico from 98 to 100 percent. The coverage on interest was also increased from 8 percent to a maximum interest coverage not to exceed the bank equivalent rate of the most recent 52-week Treasury bill auction average. The actual interest will be determined when CCC receives the application for coverage.

Another large GSM-102 authorization was announced on September 27. A total of \$600 million was made available for the Republic of Korea, after annual consultations on agricultural credit. All sales must be registered and shipments completed by September 30, 1983.

On October 20, a new 3-year "blended credit" program was announced by the Department. The program is designed to increase agricultural exports by blending government guaranteed private credits (GSM-102) with interest-free direct government export credits (GSM-5), to produce lower interest rates. Allocated to this new program was \$1.5 billion, with the first \$500 million to be used in fiscal year 1983. Of the \$500 million, \$400 million will be from the GSM-102 program and \$100 million will be in direct credits, with funding from the 1982 Budget Act. Each export application approved under the program will involve a mix of approximately 20 percent GSM-5 and 80 percent GSM-102. Coverage will be for up to three years.

A number of blended credit agreements were quickly negotiated. On October 29, Morocco was approved to receive \$140 million

in blended credit to purchase wheat. On November 1, two nations were approved for blended credit--\$60 million for Yugoslavia to purchase cotton and \$110 million for Egypt to purchase corn, wheat, and vegetable oil. On November 3, the Philippines was approved to receive \$40 million in blended credit to purchase wheat, corn, and soybean meal. Finally, on November 10, Pakistan was approved to receive \$25 million in blended credit for the purchase of vegetable oil and soybean meal. All of these actions are designed to generate more sales of agricultural commodities than would have occurred without the program.

Disease and Pest Control.--The Department sent a team of scientists to Mexico in September to determine how much of the country was infected with a mild strain of the citrus canker--eradicated from the U.S. in 1947. The Department had stopped entry of Mexican citrus into the U.S. in July to prevent the spread of the disease. On September 27, the Department began allowing commercial shipments of oranges, grapefruit, and tangerines grown outside the Mexican state of Colima to enter the U.S. The fruit had to be properly disinfected and free of debris before entry.

On August 31, the Department announced that any cut Colombian chrysanthemum flowers found infested with agromyzids or leaf miners, other than *Liriomyza frifolii*, would now have to be fumigated. This action was taken after it was discovered the pests existed in Columbia.

On September 2, the Channel Islands regained their foot-and-mouth disease-free status. This action allows the Islanders to ship to the United States ruminants, swine and the meats of those animals that are from USDA-approved plants producing meats solely from Great Britain or the Channel Islands.

Other International Action.--On October 15, the Department announced that it would contribute \$250 million to the World Food Program in 1983-84. This funding is a 14-percent increase over the 1981-82 U.S. commitment and more than 20 percent of the program's \$1.2 billion target. The \$250 million will be made up of grains, dairy products, and cash to transport those commodities.

Agency Actions.--On June 22, the Forest Service announced it would consolidate its office handling cooperative efforts in southern States with its office that administers the National Forests in the same States. Both offices were located in Atlanta.

On July 29, the Department announced plans to close seven grain inspection field offices and one sub-office (in Hastings, NE) on or before September 1. The duties of the Fort Worth, TX, Fort Dodge, IA, Denver, CO, and Albany, NY, offices were divided between other field offices. The services provided by the Seattle, WA, Sacramento, CA, and San Pedro, CA, offices became the responsibility of the appropriate States under Federal-State agreements. In addition, field offices in

Departmental Changes

Norfolk, VA, Lumberton, TX, Jonesboro, AR, Crowley, LA, and Olive Branch, MS, have been downgraded into suboffices. These actions were taken to reduce costs.

On August 9, the Department announced changes in responsibility for seed control. The responsibility for administration of the import provisions of the Federal Seed Act was transferred from the Agricultural Marketing Service (AMS) to the Animal and Plant Health Inspection Service (APHIS). To conduct this program, the AMS laboratory in North Brunswick, NJ, was transferred to APHIS on October 1. Also on October 1, the AMS seed laboratory in Beltsville, MD, took over responsibility for interstate seed shipments and service testing from laboratories in Minneapolis, MN, Montgomery, AL, Sacramento, CA--all of which have been closed--and North Brunswick, NJ.

Publications Policy.--On August 1, the Department began charging user fees for mailed market news reports to recover distribution costs. The publications continued to be available to news services, general circulation newspapers, and news magazines and broadcast new outlets at no charge. However, on September 29, the Department proposed user fee charges for all news media, because of problems with categorizing competing media.

On May 20, the Department cancelled its annual farm numbers report due out in December. Instead, the information normally reported in that report is now contained in the August crop production report.

During the last six months, the Department has received funding from industry groups to resume publication of previously cancelled reports. Included is funding for the peanut stocks and processing reports from May through September 1982; a monthly catfish report, which began in October; an August turkey report; a monthly series of reports on dry milk and whey products which began on September 1; and a weekly report on butter and American cheese, which began on October 12. In addition, CCC provided funding for quarterly reports on the sugar industry through May 1983.

Other Actions.--On August 2, a one-year pilot project to deliver agricultural marketing information to farmers through a television captioning system was announced. The project was developed by the Department and the Public Broadcasting Service (PBS) and is being tested in five cities--Tampa, FL; Springfield, MO; Fargo, ND; Denver, CO; and Fresno, CA. PBS stations in these cities will transmit marketing information, including current prices, through special captioning. The captioning may be received with a special decoder which is available for under \$300 through local retailers.

Starting with the 1983 crop, all Federal crop insurance agents will have to be certified. Each agent must successfully complete examinations to be certified. Special training courses will be held through December 18 throughout the country to assist agents.

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